

SEVA panel uncovers the need for a new way of thinking **page 4**



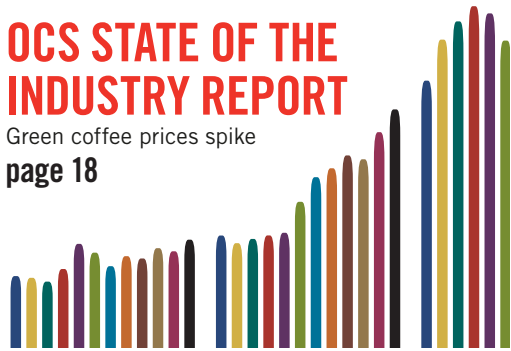
Automatic MERCHANTISER

The Vending & Coffee
Service Industry Resource

September 2011

OCS STATE OF THE INDUSTRY REPORT

Green coffee prices spike
page 18



How

A new
professionalism
defines OCS
2011: Despite rising
coffee prices and
a recession, OCS
sales rebound

We Grew

Evans Quality Coffee
Service provides OCS
excellence in Metro
New York.

SUCCESS STORY

Second generation
leader finds challenges
build professionalism.

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Company founder
Edward Evans

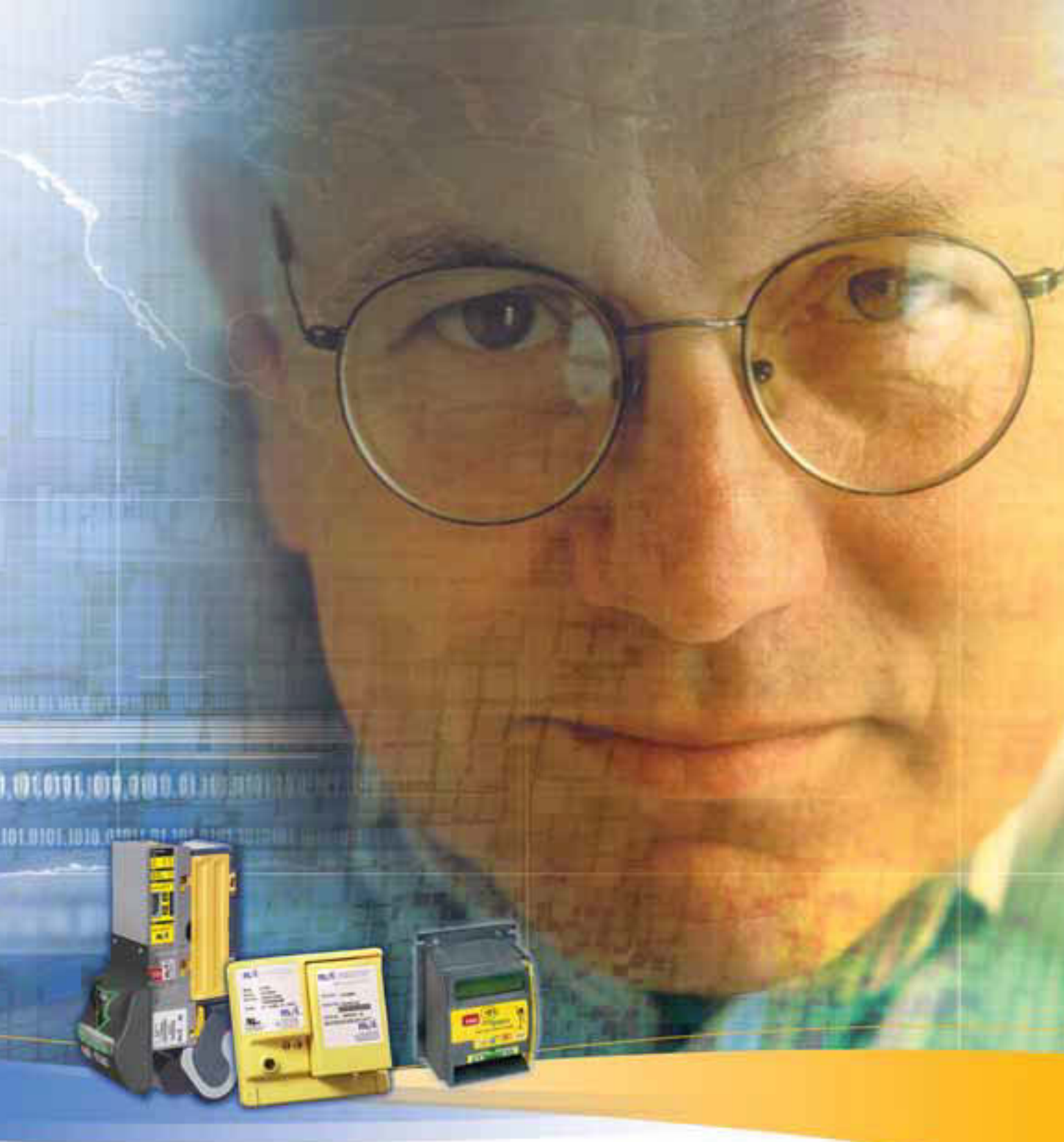
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EXCLUSIVE SEVA CONVENTION

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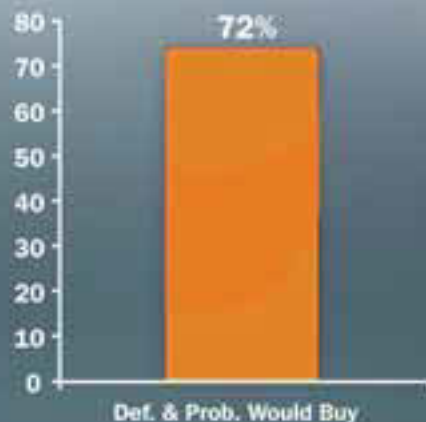
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1233 Janesville Ave., P.O. Box 803, Fort Atkinson, WI 53538-0803

BUSINESS STAFF

PUBLISHER **Gary Thom**
Telephone: (920) 568-8333
E-mail: Gary.Thom@VendingMarketWatch.com

ADVERTISING SALES **Jenny Hallett**
Telephone: (920) 568-8314
E-mail: Jenny.Hallett@cygnus.com

LIST RENTAL **Elizabeth Jackson**
Account Executive
Merit Direct LLC
Telephone: (847) 492-1350, ext. 18
E-mail: ejackson@meritdirect.com

EDITORIAL STAFF

EDITOR **Elliot Maras**
Telephone: (216) 360-0050
Fax: (920) 568-2333
E-mail: Elliot.Maras@VendingMarketWatch.com

MANAGING EDITOR **Emily Refermat**
Telephone: (920) 563-1615
Fax: (920) 568-2301
E-mail: Emily.Refermat@VendingMarketWatch.com

SUPPORT STAFF

ART DIRECTOR **Erin Brown**
PRODUCTION DIRECTOR **Steve Swick**

PRODUCTION SERVICES REPRESENTATIVE **Barb Evenson**
Telephone: (920) 563-1629
Fax: (920) 568-2392
E-mail: Barb.Evenson@cygnus.com

AUDIENCE DEVELOPMENT MANAGER **Wendy Chady**

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CHIEF EXECUTIVE OFFICER **John French**
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BONUS CONTENT on VendingMarketWatch.com



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▶ **LIVE PODCAST REPORTS from the Southeastern Vending Association Convention.**



▶ **PRODUCTS, equipment and services.**



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1 Beverage Marketing Industry Review, 2009 2 FRC Research Corporation Study, 2009
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SEVA panel uncovers the need for a new way of thinking



By Elliot Maras, Editor

Most industry observers recognize new technology can make vending more exciting and appreciated. There are three schools of thought on what is needed to allow this to happen: 1) a more favorable business environment; 2) a new way of thinking among operators; 3) a combination of the two.

Option 1 we have no control over. Option 3 depends in part on option 1, leaving option 2 as the only scenario the industry can fully control.

The scenario was described in the form of a personal story by Brad

Ellis, president of Crane Merchandising Systems, during the Southeastern Vending Association (SEVA) Convention in Destin, Fla. last month. Ellis spoke on a panel discussion on the future of vending along with Dennis Hogan, CEO of Canteen Vending Services Inc.; Tom Barlow, senior vice president of vending and wholesale for Coca-Cola Refreshments North America; and Marc Whitener, a Louisiana operator.

Ellis wasted no time getting to the heart of the matter. He said many vending operators provide

good service. But customers have a hard time measuring vending service. As a result, vending operators end up differentiating themselves on the basis of price and commission.

Ellis provided a real life story from a large vending customer he happened to visit. The account admitted that their selection of a vending operator was ultimately based on commission.

The account manager told Ellis they were never told about new vending technology and how it might improve their service.





Brad Ellis, second from left, addresses SEVA, flanked on left by Marc Whitener, Tom Barlow and Dennis Hogan.

At the end of the day, it was about commission, even though they said they were surprised they were entitled to a commission in the first place.

That a high profile account was not served in the best way possible, given the capabilities today's machines can provide, reflects the degree to which the industry is hamstrung by regressive practices and thinking.

The SEVA panelists agreed that new technology, while promising, is not fully understood as cost justifiable.

One thing that vending operators can change, however, is the way they think about the service they provide.

Operators, by changing their way of thinking, can change their customers'. The challenge is not insurmountable. | ◀

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Blockbuster CoffeeTea&Water 2011 set for Las Vegas

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Dean Gilland, NCE5, CCS, is vice president of sales and service at the National Automatic Merchandising Association (NAMA).

Next month, many of our industry's top leaders will gather in Las Vegas for the National Automatic Merchandising Association's (NAMA) blockbuster CoffeeTea&Water 2011, the must-attend, single largest coffee, tea and water service show for operators nationwide. The show will be held Tuesday through Thursday, Oct. 18 to 20, at the Bally's resort, and is an excellent chance to see what's new, meet with colleagues and learn to do things better, while enjoying the fun and glitz of Las Vegas.

Beginning with the new name, CoffeeTea&Water, we've enhanced every aspect to better mirror the key business segments of NAMA members today.

STU CASE TO CHAIR EVENT

Chairing this year's event is 30-year veteran Stu Case, NCE5, CCS, northwest vend regional manager for Burdette Beckmann, Inc. (BBI). A past president of the California Automatic Vendors Council, he was 2005 NAMA Vending Allied Member of the Year.

Each day will begin with inspiring speakers, including Ross Colbert, executive director and global strategist for Rabobank International; Steven Smith, founder of Tazo Tea, co-founder of Stash Tea and a recognized international tea entrepreneur; and Jeb Blount, author of a number one best seller, "People Buy You," and a leading national authority on sales leadership.

This year, there's 25 percent more education sessions to deliver critical insights that help attendees succeed and profit including 12 sessions on Wednesday. They include one of three interactive sales workshops, "Managing the Prospect Pyramid," "Top 10 Closing Secrets in the New Economy," and "People Follow You," all led by Jeb Blount; one track of three round table sessions devoted to developing "best practices" on industry operations; "Sales - Top Ten Closing Secrets in the New Economy"; and "Selling Green With Confidence - Market and Channel Update."

Those interested in experiencing an in-depth look at the coffee bean, processing, grading, blending and roasting won't want to miss NAMA's highly acclaimed Quality Coffee Certification Program (QCCP), which will be held Tuesday, Oct. 18. Advance registration is required at namacoffeeservice.org.

'BEAN BUCKS' ARE BACK

CoffeeTea&Water 2011 boasts tabletop displays featuring 90 suppliers of coffee, tea and related services showcasing the latest in equipment, products and services. And attendees from last year will be thrilled to know that our popular "Bean Bucks" special pricing coupon book is back by popular demand. The coupon book offers generous savings on equipment and products, but the

coupons are redeemable only at CoffeeTea&Water 2011.

RECOGNIZING COFFEE LEGENDS

Thursday we'll be recognizing the pioneers and innovators of our industry by naming them "2011 Coffee Legends." These are our industry's most original and inventive leaders who are passionate about coffee and are willing to share that passion to educate and help others succeed. Nominated by their peers, they must have at least 10 years of service in the industry, and been recognized previously by peers for exemplary service to the industry, being active in local charities or service on civic projects. Clearly, quite an honor.

We've also left plenty of time for networking and enjoying the glamour and glitz of Las Vegas. You can reconnect and share stories at NAMA's welcome reception on Tuesday evening and the network reception on Wednesday.

We've worked with Bally's to secure a rate in the renovated north tower of just \$79 per night (Tuesday to Thursday.) Registration includes all the educational sessions (except QCCP), networking receptions, breakfast and lunch. For more details and to register, visit namacoffeeservice.org.

All of us in coffee service at NAMA are passionate about our work and we're excited to help you develop tools and strategies that welcome in a new era of success. We look forward to seeing you in Las Vegas! ▶

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NAMA launches nationwide Facebook contest

The National Automatic Merchandising Association (NAMA) launched the Vend.Love.Win. Facebook contest (www.facebook.com/VendLoveWin). The nationwide, 8-month contest invites fans to post creative photos or videos of their favorite vending machines or vended products for a chance to win prizes. Facebook users per month can win \$200 for themselves or a charity of their choice, and be eligible for a \$5,000 grand prize. Also at the Vend.Love.Win. Facebook Website, entrants



and voters are encouraged to check out the “Vend This” and “Vend Here” tabs. These two tabs allow consumers to provide direct feedback to the vending industry about additional products they want to see in machines, plus new and different places where they would like to see vending machines located.

This marks the beginning of a larger campaign designed to boost awareness and generate excitement among consumers about vending. Over the next several months, additional initiatives aimed at Generation Y will be revealed, including special events, giveaways, other social media efforts, new consumer technologies, and more.



Coke to test machines utilizing Google Wallet

► The **Coca-Cola Co.** and **Google** have partnered to demonstrate a payment technology that utilizes the Google Wallet for two types of vending machines, a traditional vender and the Coca-Cola Interactive Vender (CCIV). The CCIV is an interactive experience that combines sight, sound, motion and touch to the consumer vending experience. Both types of machines will

be equipped with credit card readers that not only accept traditional credit cards, but are also enabled to utilize Google's Mobile Wallet.

Google's Mobile Wallet transforms the purchasing process by allowing a consumer to make a purchase via a near-field communication-enabled Google Android phone. Coca-Cola Co. will be piloting at least 200 vending machines starting in September in five markets: San Francisco, Calif., New York, N.Y., Chicago, Ill., Los Angeles, Calif., and Washington, D.C.

Kraft Foods Inc. to split its snack and grocery businesses

► **Kraft Foods Inc.** announced plans to create two independent public companies: a global snacks business with estimated revenue of approximately \$32 billion and a North American grocery business with estimated revenue of approximately \$16 billion. The company expects to create these companies through a tax-free spin-off of the North American grocery business to Kraft Foods shareholders.

Equity firm buys Next Generation Vending

► **H.I.G. Capital, LLC**, a private equity investment firm, has completed the acquisition of **Next Generation Vending and Food Service, Inc.**, a Stoughton, Mass.-based provider of vending services in the northeastern U.S. H.I.G. joined forces with Next Generation's management team, led by Chief Executive Officer David Mac Isaac and Chief Operating Officer Joe Rogan, to consummate the recapitalization.

Snyder's-Lance

Snyder's-Lance acquires New England distributor

► **Snyder's-Lance, Inc.** acquired all of the issued and outstanding shares of **George Greer Co., Inc.**, a snack food distributor serving Rhode Island, eastern Massachusetts and New Hampshire.

First Choice Coffee signs distribution pact with Jammin Java

► **Jammin Java Corp.** has signed an OCS distribution pact with **First Choice Coffee Services**, the largest OCS distributor on the West Coast and among the largest in the country. The deal will include a commitment of 1,000 Marley Coffee branded Bunn brewing machine installations in the first year, which will translate to approximately \$2.5 million in pod sales on an annualized basis.



Technology firm to buy Energy Innovative Products Inc.

▶ **mPhase Technologies Inc.** signed a letter of intent to acquire **Energy Innovative Products Inc.** (EIP), a developer of proprietary technologies for reducing energy usage in refrigeration and cooling systems, as well as equipment utilizing air conditioning induction in motors.

Canteen Vending buys Jackson Brothers

▶ **Canteen Vending Services Inc.** acquired St. Louis, Mo.-based **Jackson Brothers**, which operated 12 vending and OCS routes and three manual feeding sites, from owner Kendall Jackson. Jackson, who founded the company in 1978, said all 49 employees will stay with Canteen. The vending and OCS routes will be folded into Canteen's existing operation. The purchase did not include Jackson Brothers' building, Jackson said. Nor did it include Springfield, Mo.-based **Jackson Brothers of the South**, which became a Canteen franchise earlier this year.



Apriva partners with MEI on cashless

▶ **Apriva**, a provider of end-to-end wireless transactions and secure information solutions, has formed a strategic alliance with **MEI**, a global manufacturer of unattended payment systems, to bring comprehensive cashless payment solutions to vending operators throughout North America.

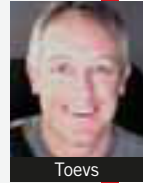
Crane partners with USA Technologies Inc.

▶ **Crane Merchandising Systems, Inc.** and **USA Technologies, Inc.** announced a 3-year agreement to deliver a combined cashless vending solution to Crane customers. USA Technologies will provide card processing, wireless communications and data services under its ePort Connect Service for Crane's customers utilizing the new Currenza@ cashless bill validator/card reader.

People in the News

Brent Toevs joins Jammin Java

Brent Toevs, founder and partner at National Coffee Service & Vending Inc., the Lake Worth, Fla.-based product brokerage, has joined Jammin Java Corp. as CEO and board member.



Toevs

Tinsley joins Grindmaster-Cecilware

Michael Tinsley has joined Grindmaster-Cecilware as chief executive officer. He returns to the beverage and food equipment industry, having served as an executive with American Metal Ware and H&K International earlier in his career.

Mama Rosa's hires Schwan's Jodi Baron

Jodi Baron recently left her position as national sales manager for vending at Schwan Food Co. to become director of vend sales at Mama Rosa's LLC, a newly-created position.



Baron

Industry loses Humbert Betti, Jr.

Humbert Betti, Jr., retired chairman of Carlstadt, N.J.-based H. Betti Industries, recently passed away. He was 92 and was the son of company founder Humbert Betti, Sr.

Kiser joins AVT as marketing officer

Mike Kiser, a former CEO of Canteen Vending Services Inc. and a vending technology developer and marketer, recently joined AVT Inc., a publicly traded manufacturer of high-tech vending machines, as chief marketing officer. Kiser has also formed a new company, Custom Retail Systems, to distribute extraction technology.

CALENDAR OF EVENTS

SEP. 14

Tri-State Automatic Merchandising Council First John Boyle Memorial Scholarship Tournament
Old York Road Country Club, Springhouse, Pa.
Phone: 571-346-1901
www.tristateamc.com

SEP. 22 - 24

California Automatic Vendors Council and Arizona Automatic Merchandising Council 2011 Annual Meeting
Temecula Creek Inn, Temecula, Calif.
Phone: 626-229-0900
www.cavconline.com

SEP. 26 - 30

International Bottled Water Association Annual Business Conference
MGM Grand Hotel, Las Vegas, Nev.
Phone: 703-647-4606
conventioninfo@bottledwater.org
www.bottledwater.org

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

OCT. 18 - 20

National Automatic Merchandising Association CoffeeTea&Water 2011
Bally's Resort, Las Vegas, Nev.
Phone: 616-299-6483
rstewart@namacoffeeservice.org
www.vending.org/education/coffeeevent.php

OCT. 21 - 22

Atlantic Coast Exposition (ACE)
Embassy Suites at Kingston Plantation, Myrtle Beach, S.C.
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http://www.atlanticcoastexpo.com

Google Wallet further empowers the smart phone

Vending readers with near field communication capability support mobile commerce

By Glenn Butler, Don Finley and Michael Kasavana, Contributing Editors

In late May 2011, Google announced its revolutionary mobile payment platform that enables consumers to tap or wave a smartphone at a point-of-sale (POS) terminal, including vending machines equipped with a near field communication (NFC) enabled reader to initiate a secure transaction, generate coupon offerings, and activate applicable loyalty programs.

To date, such data exchanges required multiple taps, but Google's innovative scheme claims to accomplish these tasks simultaneously from a single tap or wave action. This transaction application, termed the Google Wallet, is designed to work with Google's Android mobile phone software in combination with NFC technology.

The Google Wallet simply establishes a reliable way to pay for goods via a mobile phone (m-commerce). The Google Wallet was recently launched through a partnership with Citibank, MasterCard, Sprint, First Data and three major retailers, Macy's, Subway, and Walgreens. The Google Wallet is a downloadable application for an Android smartphone equipped with NFC technology. It is important to note that the mobile device supporting the download must contain an NFC chip.

NFC enabled readers for vending machines include MEI's 4 in 1 Payment Acceptor, USA Technol-



Consumers will make purchases simply by waving or tapping a near field communication (NFC) enabled smart phone near an NFC-enabled reader.

ogy Inc.'s ePort 'G' Series device, the Vivotech 4500 Series, and Coin Acceptor Inc.'s upcoming Arrow Smart Reader.

Consumers carrying the device can use it to complete purchase transactions at compatible POS terminals. It is estimated there are more than 311,000 NFC-compliant retail locations worldwide (i.e., POS locations accepting MasterCard's PayPass settlement service). Part of the application download includes the flash sale and coupon-based Google Offers software, akin to Groupon or Living Social services.

Google requires users to download its Wallet application from the Android Market and subsequently link the application to an active CitiBank MasterCard or Google

Prepaid Card. As an incentive to consumers, Google has bundled the Wallet with Google Offers, thereby enabling consumers to automatically apply discounts, promotions, and affinity programs to relevant sales transactions in real time.

The joint introduction of the Google Wallet and Google Offers links electronic coupons and payments to create an unparalleled shopping experience built upon highly successful online and offline shopping concepts.

CONSUMERS WANT MOBILE PAYMENTS

The challenge facing the Google Wallet (and alternate e-wallet formats) is: Are consumers interested in using an NFC-enabled mobile phone for making purchases? A

recent online survey conducted by Visa found that nearly two-thirds of respondents between the ages of 25 and 34 responded favorably to mobile phone purchase payment. The survey also revealed that 64 percent of the respondents were interested in receiving coupons through a mobile device.

In addition, more than half of those surveyed admitted carrying a mobile phone at least 75 percent of the time.

The development and deployment of integrated NFC chipsets to cellular phones is projected by ABI Research to lead to widespread adoption of NFC contactless payments during the next few years.

MULTIPLE CARD OPTIONS

The novelty of Google Wallet is that it allows users to “store” multiple credit card numbers securely in a mobile smartphone. The chip inside the phone can emulate multiple credit/debit cards that can be selected using the application in mobile payment device. Currently, there is only one phone to support the Google Wallet, and it is the Sprint Nexus S 4G, although other Android phones are certain to follow.

Contactless payment adoption at retail stores is gaining momentum as reported by research firm Aberdeen. The company claims that nearly one-third of all retailers either implemented or plan to implement some form of contactless payment technology.

Initially, the movement toward contactless technologies experienced resistance from business operators based on the high cost of implementing new equipment and the corresponding infrastructure necessary to complete the exchange of settlement data.

With the evolution of strategic partnerships between NFC providers,

Vending operators should prepare for the Google Wallet

All new smartphone payment technologies, including Google Wallet, will require NFC-compliant technology in the vending machine payment mechanism. While this capability has not been widely used in the past, and therefore may add \$50 or so to the cost of the bezel device, it is a wise investment.

NFC technology is recommended for all payment devices going forward. In addition, it is likely that card associations (Visa, MasterCard, Amex, and Discover) may offer subsidies for installing NFC contactless cashless equipment in vending machines. As a point of interest, there currently are payment devices available from vending industry suppliers that are certified NFC-compliant and that will work with some electronic wallets.

At least initially, all processing for Google Wallet is performed by First Data and other processors. It is likely that a vending operator currently accepting open cashless payments can rely on their processor to process Google Wallet and related transactions.

As the Google Wallet field trials expand into additional markets, vending industry suppliers may participate (along with related forms of automated retailing). Equipment manufacturers will be an excellent source of information as this technology matures.

payment processors and POS vendors, retailers now have the opportunity to implement cost-effective hardware, software, and network without necessitating structural changes.

In addition, there is also a solid base for ancillary and future applications. Typically, contactless payments significantly reduce waiting times for customers by removing the hassle associated with cash payments or the processing of swiped electronic payment cards. Such benefits well apply to consumers using vending machine equipment.

When an NFC device is within close proximity of a reader, secure data exchange can take place. Data transfer takes place as soon as the NFC chipset is detected by the NFC reader. With NFC payment technology, the amount of the purchase can be immediately deducted from the consumer’s bank account, settled with stored credits/debits, or charged against a deferred form of payment (e.g., a phone bill).

M-COMMERCE BRINGS NEW BENEFITS

The impending success of the Google Wallet is somewhat focused, and dependent, on the increasing popularity of mobile and local platform programming. As an m-commerce application, the Google Wallet has the capability to electronically store credit/debit account information, promotional offers, loyalty and reward points, and gift cards. During transaction settlement, discounts, promotional campaigns, and loyalty points can be automatically applied and reflected in final reconciliation.

For example, a consumer might tap his/her smartphone on an NFC payment reader, thereby exchanging payment information, applying relevant discounts, and aggregating loyalty information.

A serious concern related to the Google Wallet is security. The Google Wallet is highly secure with multiple levels of authentication, including a screen lock, PIN code numbers, and encrypted credit/debit information.

CONTINUED ▶

Google Wallet merchants become “single tap” merchants, meaning that users can pay by just waving or tapping a compliant Google Wallet device to settle a purchase while earning loyalty rewards and redeeming e-coupons. Given affiliation with MasterCard, the MC Paypass-enabled terminals as well as CitiBank MasterCard and Google Prepaid Cards also accept Google Wallet and Google Offers.

By broadcasting price discounts and product promotions directly to the phone of the consumer, savings can be applied when the products are purchased and settled at the point-of-sale. Sales credits are applied to the transaction at time of settlement, loyalty or reward points are posted, and a receipt is sent back to the phone as support documentation. There are no hard copy documents that accompany product purchases.

The Google Wallet is bundled with Google Offers software to produce a comprehensive and efficient shopping device.

A DIFFERENT BUSINESS MODEL

Unlike credit/debit card processors that rely on transaction fees for revenue, Google does not plan to profit from transaction processing fees, but instead will aggregate purchase data for transactional and trend analysis. Google views the Google Wallet not as a means for transactional residuals, but rather as a way to expand its mobile advertising strategy.

Concentrating on consumer data is expected to generate a competitive advantage for Google over alternate electronic payment schemes since transaction expenses will be lower and NFC readers may be provided to retailers at little or no cost, supplemented by Google.

Google’s growth is expected to increase significantly between



Consumers will be able to take advantage of the Google Wallet on vending machines.

2011 and 2015, given the abundant growth of mobile, social and local applications on handheld devices.

If currently using a smartphone for Google Maps, then a similar sequence of activities is followed for Google Wallet and the use of advertising and promotions.

For example, consider what happens when employing the mapping application in search of a local pizzeria. The application will display nearby pizza restaurants along with available promotions. Following service at the selected pizza place, the smartphone housing the Google Wallet is waved to initiate payment while active discounts are redeemed and applied against the amount due.

Part of the download includes Google Offers, a flash sale service based on local promotions, discounts, and special offers.

Google plans to derive revenue from location-based advertising, couponing, and related promotions.

PUTTING IT ALL TOGETHER

NFC technology enables the Google Wallet to function as a mobile payment device supporting multiple credit/debit card accounts whenever a compliant smartphone is waved or tapped at an

NFC-enabled terminal. Operations include: a) flash sales support, b) increased internal storage capacity, and c) enhanced screen display.

Unfortunately, not all industry observers are in agreement relative to the projected success of the Google Wallet. Experts seem unsure that billfolds and plastic cards will be traded in favor of electronic files on a mobile device. What remains unclear are what incentives are needed to accelerate consumers and/or merchants to support the Google Wallet. ◀

Editor’s Note: For an extended version of this article, visit www.vendingmarketwatch.com/10318140.

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ABOUT THE AUTHORS



Glenn Butler operates CTO Services LLC, a technology consultancy. He can be reached at 781-688-1597 or at gbutler@ctoserv.com.



Don Finley is VMS product manager at MEI Group.



Michael Kasavana, Ph.D., is the NAMA endowed professor in hospitality management at Michigan State University in East Lansing, Mich. He has

been researching vending technology for several years.

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Time to move beyond 'clean, filled and working'

The shopping experience must be comfortable and exciting to win consumers' loyalty

By Paul Schlossberg, Contributing Editor

For vending to remain a relevant shopping choice, we have to be a part of the 21st century. It will take new merchandising, new marketing and a whole new store.

The classic definition of merchandising is: "Making products available for sale through display, promotion and pricing to gain attention, stimulate interest and entice shoppers to make a purchase." For today's shoppers, especially those under 30 years of age, "clean, filled and working" is not good enough to win their loyalty.

We have to change the way we think about our stores. Stop thinking about cold drink machines or candy/

snack machines as if each stands alone. Instead, look at the whole store, all of the machines and all of the products, as one combined retail outlet. That is what the competition does, especially convenience stores.

Then consider how each section of the store should be merchandised. Decide on what to offer and how to arrange the products in each section (i.e., the machines). What can we do to attract more shoppers and then get each shopper to purchase once and then make them repeat that purchase behavior?

How do we attract and interest shoppers – at 30 feet – at 10 feet – and when they are in front our

machines? What is the most effective way to arrange our machines? Which machines should be closest to the entry point? Which should be furthest from the entry point?

Since every situation is different, it will test our creativity to deliver an effective solution.

This is a challenging subject. If you visit fast food restaurants and convenience stores, you'll see a fairly consistent design in each chain's locations. It's difficult for us, because every breakroom or lunchroom is different in size, format (rectangles, squares, whatever), color and fixtures – with tables and chairs varying from new to the 1950s.

Our industry has always been creative and highly adaptive. Now we must step it up – in a big way.

We run different stores at every location. The machines placed vary based on how many people are being served. The products we stock change based on the site demographics, i.e., younger or older, white collar or blue collar or pink collar or grey collar, ethnic mix, etc.

Here are some radical new ideas:

- **Get rid of the old machine line-up.** Space the machines farther apart. People don't like to bump into each other when they are shopping. Give them more room.
- **Create landing areas.** What is a landing area? Next time you're in convenience store or a coffee shop, look at the spaces they provide for their shoppers to put down what they've purchased and add condiments, pick up utensils or napkins and get organized. We don't offer this. Have you ever watched a shopper at a vending site juggle a sandwich, snack and try to buy a soft drink? I have, and I can tell that these folks are usually frustrated and annoyed. Go see for yourself.

- **Cluster machines.** This does not work at every site. But it will work at many locations and can be a game-changing enhancement to how shoppers interact with what we offer.
- **Change the machine arrangement.** The closest machine to the entry point should be the least shopped machine. The machine at the most distant point should be the one most frequently shopped. We don't usually do this in our business. But convenience

stores do. They walk you past candy and snacks and food to get to either the cold or hot beverages. Pay attention the next time you're in a convenience store. Put the soft drink machine at the most distant point from the entry. Put the food machine closest to the entry. Then snacks. Then coffee.

- **Don't use a machine line-up at all.** This is my last and most controversial recommendation. Make the shopping process at each machine more like each is a separate department. Make it easier for shoppers to check out a machine. This will give them more access to "window shop" and, hopefully be enticed to make an impulse purchase. If all of the machines are directly in

"upgraded." We will have to sell this – because we are giving them productivity – by keeping their staff onsite. But if the lunchroom is bad, the staff will want to get away for breaks or lunch.

- **Keep the breakroom clean.** That includes tables, chairs, counters, sinks, and the floor. It also includes the microwave oven. A dirty breakroom will turn people away. They don't come back and we lose sales. We've got to sell this too.

MERCHANDISING INCLUDES MANY THINGS

We are in the immediate consumption business. What we sell is usually consumed within 15 minutes of being purchased. Some of those sales are planned. Some of those sales are made as impulse purchases.

Our merchandising must go beyond where we place our machines.

Is the shopping process organized to make it easy for those who are 30 feet away to realize what we are selling? If it is easy, they might come closer. If not, they won't. It is the 30-foot decision point that makes me a big fan of branded machines. And that's why I also like adding décor packages around the machines to get the attention of busy,

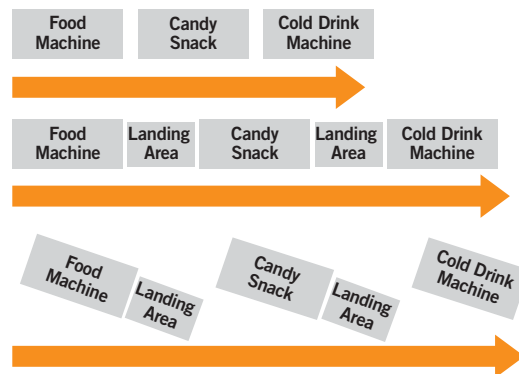
distracted people – to help them notice what we offer.

Did you ever wonder why the free-standing cold drink machines always feature big branded imagery? It's simple – they want to attract your attention, stimulate your thirst buds and get you to walk up and buy a refreshing cold drink.

The front of the machine is the next step in the merchandising game. My favorites are the interactive

CONTINUED ▶

Alternative floor plans – fair, better and best



line, it is more difficult for shoppers to see what is being offered, especially if it is a busy lunch rush or break time.

When responding to an RFP, we must add two things we expect the client will be responsible for:

- **Provide the atmosphere and ambiance.** If the breakroom is not an attractive and inviting environment, then we must ask (in the bid we submit), that the tables, chairs, etc. must be

machines that Kraft, Coca-Cola and PepsiCo have featured at the National Automatic Merchandising Association One-Show. The interactive screens help make sales by engaging the technology-driven Gen X and Gen Y shoppers.

Where do you position your best selling products in the machine?

The answer is not simple.

There are two studies I've seen from Europe over the last 10 years. One says the middle rows radiating from the right to left generate the highest sales. The other study is more recent, about three years old, and indicates that a diamond format for the best sellers will drive higher sales.

USE SOCIAL MEDIA

Social media brings a new and important merchandising tool to the table. Use social media – especially where the site population is younger and more tech savvy.

PepsiCo has a new social media cold drink machine. You can buy a Pepsi for a friend and send them a message, with text or a photo or video. And Unilever has a new ice cream machine. When it senses that you're smiling, you're

rewarded with a free ice cream and you can post your smiling face on Facebook.

Welcome to the world of social media. Imagine if you could put your planogram on a Website, or Facebook, for

OUR merchandising must go beyond where we place our machines.

each machine at each location. With telemetry, if you have the nerve, you could show what is (or is not) in stock up to the minute. We can do this – right now. Who will lead our channel in this direction?

USE TECHNOLOGY TO REDUCE OUT OF STOCKS

I've seen a lot of research about out-of-stocks. It is always the same. Most retail channels experience out-of-stock levels at 9 percent or more.

About 30 percent of shoppers decide not to make a purchase when their favorite item is out-of-stock. And roughly another 30 percent go elsewhere to find their favorite item. About 10 percent, or more, decide not to make a purchase at all.

One study concluded sales could be increased as much as 3 percent by eliminating out-of-stocks (in U.S. convenience stores). How would you like a 3 percent increase in sales – just by eliminating out-of-stocks?

We have a new tool in telemetry. We can, with remote machine monitoring, prevent out-of-stocks before they occur.

Remember to build in conveniences for your stores. Provide landing areas. Arrange your floor plan to make it easy for customers to shop. Have systems in place to keep the area clean. Consider where you place your best selling products in the machine. Use technology to reduce out of stocks. Use social media to create excitement. When these strategies and tactics are in place, we can begin the next phase of 21st century merchandising. | ◀

Editor's Note: For an extended version of this article, visit www.vendingmarketwatch.com/10318207.

ABOUT THE AUTHOR



Paul Schlossberg is the president of D/FW Consulting, which helps clients merchandise and market products in impulse intense selling environments, such as vending, foodservice and convenience stores. He can be reached at Paul@DFWConsulting.net or

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A new PROFESSIONALISM defines OCS

2011: Despite rising coffee prices and a recession, OCS sales rebound.
By Elliot Maras, Editor

Coffee service has evolved into a highly specialized profession in recent years with a profusion of advanced delivery systems and a wider variety of products, enabling operators to meet diverse customer tastes. Learning how to compete in this new and improved industry requires ongoing commitment to coffee and business management education.

Economic conditions continue to impact OCS along with most industries. However, the consumer's growing appreciation for good coffee, the fact that OCS coffee is free

CHART 2: SALES CHANGES IN 2010/2011
 ● SALES ROSE ● SALES DECLINED ● NO CHANGE

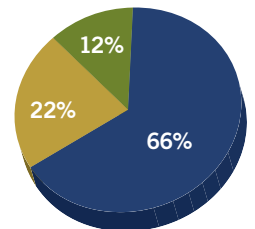
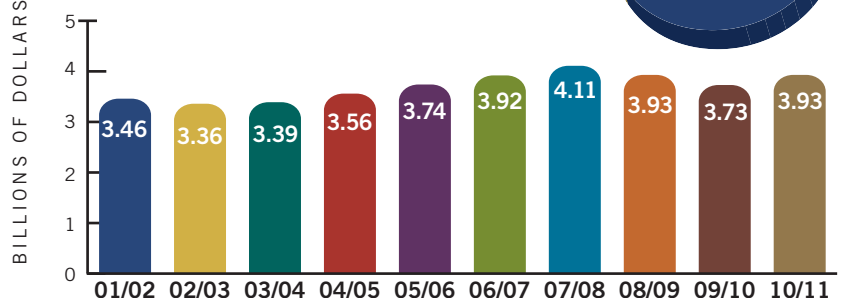


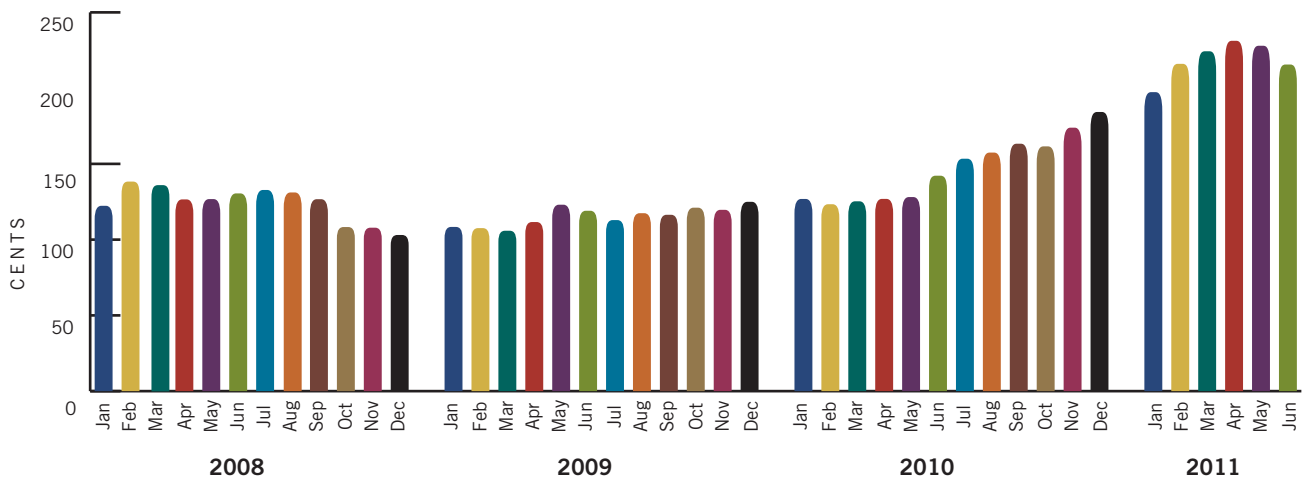
CHART 1: OCS REVENUES – 10-YEAR HISTORY



to the end user, and a willingness on the part of locations to pay for good coffee despite cost pressures

have combined to create a unique set of opportunities and challenges for OCS.

CHART 3: COMPOSITE GREEN COFFEE PRICES, 2008 TO JULY, 2011



Source: International Coffee Organization, London, U.K.

A historical review of OCS sales in the last 10 years indicates the economy has less influence on OCS operator sales than the industry's adoption of single-cup delivery systems, the most significant technological change in the industry's history. This is a key reason why the OCS industry suffered less sales attrition since the start of the current recession in the fall of 2007 than the vending industry.

The State of the Coffee Service Industry Report in the 12-month period ending in July of 2011 found aggregate OCS sales rebounded from a 10 percentage point decline in the prior two years by five points in 2011, driven by product price increases. The 2010/2011 report found an unprecedented 88 percent of operators raised prices in the 12-month period.

The vending industry, by contrast, lost 18 percentage points in the 3-year period from 2008 to 2010.

The OCS industry suffered a similar rate of decline in the earlier period of the current recession, but it was able to reverse the downward trend in the most recent 12-month period.

Automatic Merchandiser's analysis of OCS pricing activity in 2010/2011 indicated double digit price increases in the 12-month period, primarily reflecting cost increases from suppliers. Another unique aspect of the operator price increases was that operators raised prices more than once in the 12-month period, in concert with supplier increases. Many operators raised prices three times.

The supplier price increases, reflecting changes in green prices indicated in chart 3, increased with time.

Operators agreed that widespread publicity about higher prices made it easier than ever to pass on higher prices to customers.

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OPERATOR PRICING ACTIVITY

CHART 4A: RAISED PRICES IN THE LAST YEAR, 10-YEAR REVIEW

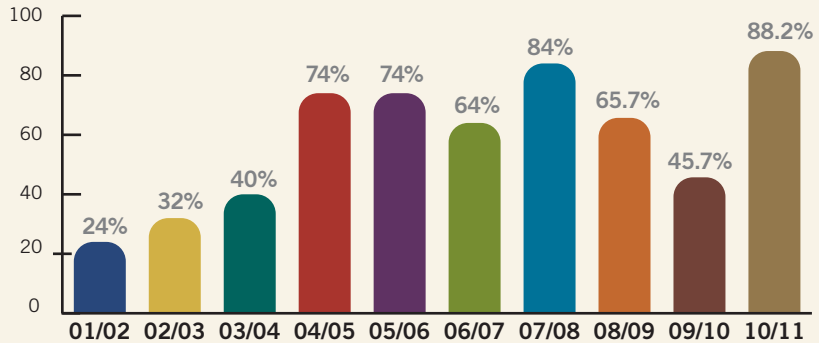


CHART 4B: OPERATOR PRICING ACTIVITY, 5-YEAR REVIEW

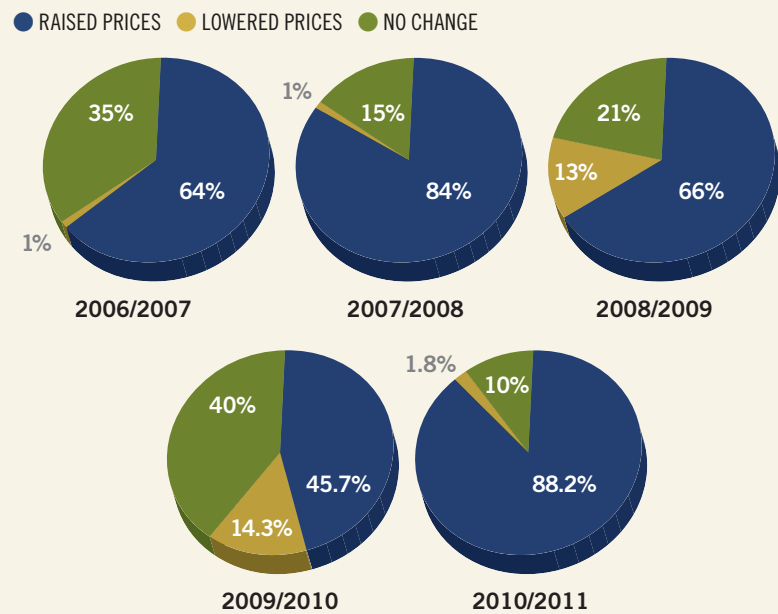


CHART 4C: REVENUE PER CUP IN CENTS PER CUP, PLUMBED IN/POUROVER COFFEE, 10-YEAR REVIEW

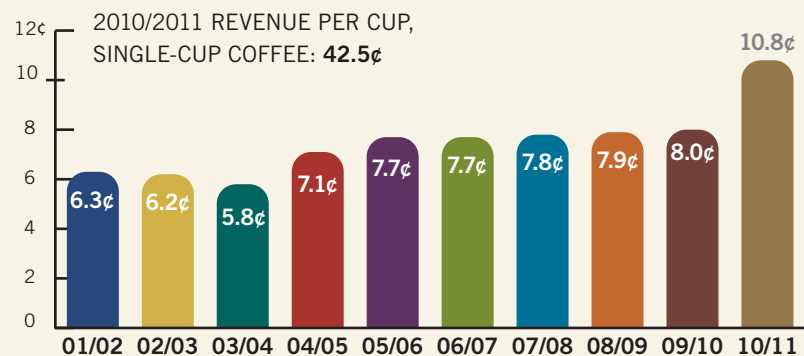


CHART 5: ACCOUNT POPULATIONS BY SIZE, 2010/2011

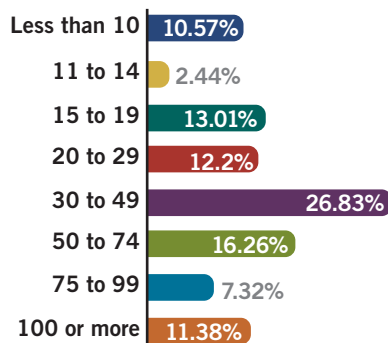


CHART 6: OCS SALES BY PRODUCT CATEGORY, 5-YEAR REVIEW

| | 06/07 | 07/08 | 08/09 | 09/10 | 10/11 |
|------------------------|-----------|-----------|-----------|--------------|-------------|
| Private label coffee | 23% | 23% | 27% | 39.69% | 28.11% |
| National brand coffee | 33 | 35 | 31 | 21.4 | 26.92 |
| Espresso/cappuccino | 3 | 3 | 2 | 4.94 | 3.6 |
| Other coffee* | 8 | 8 | 9 | 4.63 | 12.07 |
| Total Coffee | 68 | 69 | 69 | 70.66 | 70.7 |
| Other hot beverages | 7 | 5 | 6 | 7 | 4.9 |
| Soft drinks/juices | 6 | 4 | 3 | 3.5 | 5.39 |
| Bottled/filtered water | 5 | 5 | 5 | 4 | 5.7 |
| Creamers/sweeteners | 6 | 7 | 7 | 5 | 5.63 |
| Cups/paper products | 6 | 6 | 6 | 5.5 | 5.41 |
| Other | 3 | 3 | 4 | 4 | 2.27 |

*Includes flavored, whole bean and varietal.

CHART 7A: OCS BREWER BREAKOUT BY TYPE, 5-YEAR REVIEW

● PLUMBED-IN AND POUROVER ● THERMAL ● SINGLE-CUP

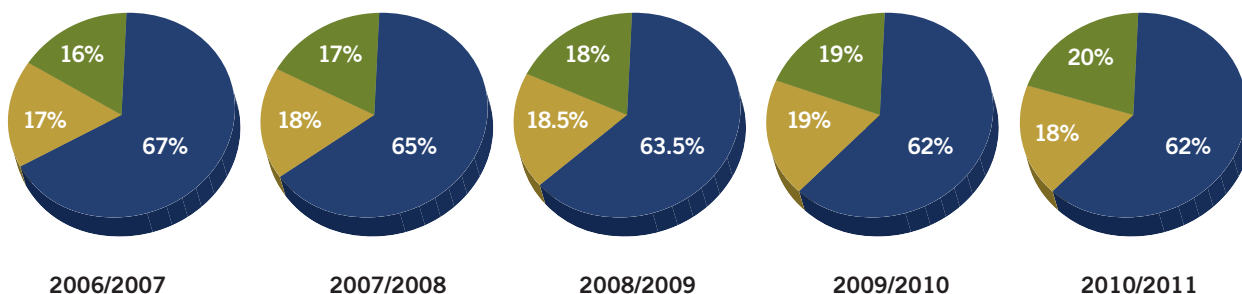
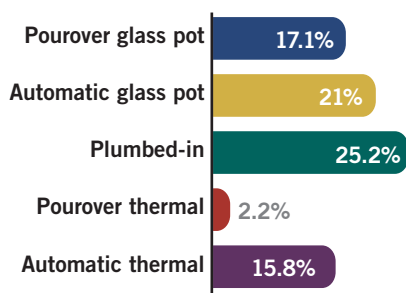


CHART 7B: PLUMBED-IN, AUTOMATIC AND THERMAL AS % OF TOTAL IN 2010/2011



The National Coffee Association (NCA) annual coffee trends study further indicated that consumption of coffee has held steady through the recession. In 2011, the study found 40 percent of those 18 to 24 years old said they drink coffee daily, up from 31 percent in 2010 and on par with 2009's 40 percent. For those 25 to 39 years old, 54 percent said

they drink coffee daily, up from 44 percent in 2010 and ahead of 2009's 53 percent.

NCA reported that gourmet coffee continues to be a significant portion of total coffee consumption, indicating that consumers want to maintain coffee quality even in an uncertain economy.

A consumer survey commissioned by the National Automatic Merchandising Association (NAMA) found consumers overall hold coffee at work in high regard. The survey found that 60 percent of all employed coffee drinkers consider free coffee as an employee benefit; 55 percent of Generation Y consumers (age 18 to 27), 69 percent of Generation X consumers (those born between 1965 and 1976) and 61 percent of baby boomers consider coffee provided by an employer as fresh.

While OCS operators raised coffee prices, they did not charge for fuel as much in 2010/2011 despite spiking fuel costs. As indicated in chart 10a, the number of operators charging for fuel fell to pre-recession levels in 2010/2011.

Among those operators who did charge for fuel, they were more likely to do so on a selective basis than in prior years, indicated in chart 10b.

Operators indicated they were less inclined to seek a fuel charge in addition to passing on higher coffee prices.

Another factor contributing to the OCS industry's revenue growth was the continued expansion of single-cup coffee systems, a trend that began more than 10 years ago.

The fact that single-cup systems continue to expand during a

CONTINUED ►



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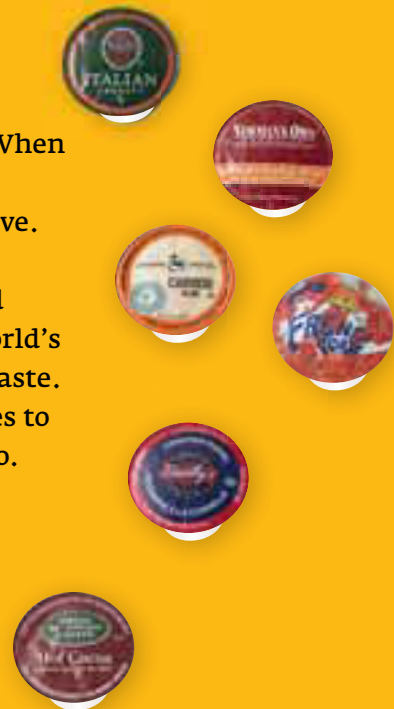


CHART 8: ESTIMATED SINGLE-CUP BREWER PLACEMENTS IN THE U.S., 6-YEAR REVIEW

(Editor's note: Each number represents total accumulated placements for the given date. Some previous years numbers have been adjusted.)

| MARKETER | PRODUCT(S) | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
|---------------------|---------------------------------------|----------------|----------------|----------------|------------------|------------------|------------------|
| Bodecker Brewed | Bodecker | 300 | 2,100 | 2,600 | 3,100 | 3,130 | 3,160 |
| Café Excellence LLC | Café X Milano | 250 | 250 | 250 | 250 | 250 | 250 |
| Cafection | Avalon | 24,350 | 28,150 | 32,150 | 36,500 | 40,000 | 56,000 |
| Cafejo | Cafejo | 5,250 | 11,250 | 16,250 | 23,000 | 25,000 | 30,000 |
| Crane | Café System, Genesis | 11,150 | 12,150 | 13,150 | 13,150 | 13,400 | 15,100 |
| Filterfresh | Filterfresh* | 18,030 | 18,040 | 18,050 | 20,300 | 22,550 | 22,500 |
| Grindmaster | Grindmaster | 0 | 0 | 0 | 10,000 | 15,000 | 17,200 |
| Keurig | Keurig | 130,629 | 211,821 | 345,712 | 378,420 | 398,500** | 587,500** |
| Kraft | Gevalia, Tassimo Professional | 3,500 | 3,500 | 3,900 | 3,900 | 6,500 | 9,000 |
| Lavazza | Espresso Point, Lavazza Blue | NA | NA | 17,000 | 21,000 | 23,000 | 27,000 |
| Mars Drinks | Mars Drinks (Flavia) | 140,000 | 250,000 | 362,500 | 362,500 | 384,500 | 384,500 |
| Newco | Smartcup, Freshcup | 1,000 | 1,800 | 1,800 | 1,800 | 3,300 | 4,300 |
| Rheavendors | Rhea, Cino, | 2,694 | 3,194 | 3,644 | 4,373 | 4,810 | 4,810 |
| Saeco USA | Saeco, Estro | 22,000 | 24,200 | 26,400 | 27,705 | 29,125 | 30,141 |
| Sara Lee | Douwe Egberts | 775 | 775 | 2,325 | 3,000 | 4,500 | 7,000 |
| Starbucks | Starbucks | 2,000 | 5,000 | 7,500 | 8,000 | 10,000 | 11,000 |
| Technologies Coffea | Coffea | 0 | 0 | 0 | 0 | 275 | 2,200 |
| VE Global Solutions | Venus, Cypris, Juno, Prosyd | 9,500 | 12,500 | 16,500 | 18,800 | 21,700 | 26,100 |
| VE Global Solutions | Brio, Colibri, Koro, Korinto, Konvivo | 34,000 | 42,000 | 51,500 | 59,600 | 67,675 | 72,950 |
| Wolfgang Puck | Wolfgang Puck | 0 | 0 | 1,000 | 5,000 | 6,500 | 2,000 |
| Other | | 6,800 | 6,800 | 6,800 | 3,500 | 3,500 | 3,500 |
| Total | | 412,228 | 633,530 | 929,031 | 1,003,898 | 1,083,715 | 1,316,211 |

* Number includes Filterfresh branded machines, not all machines Filterfresh operates.
 ** Does not include 480,000 at-home Keurig brewers that were in offices in 2009/2010.
 ** Does not include 980,000 at home Keurig brewers that were in offices 2010/2011.

period of low consumer confidence demonstrates the high value these systems have earned among account decision makers. The popularity of these systems also reflects the high level of value that consumers place on high quality coffee in general, quantified by rising coffee sales in all retail channels.

SINGLE CUP HAS GEOGRAPHIC DISPARITIES

As single cup has expanded in recent years, the geographic disparity in single-cup's popularity nationwide has become more pronounced. Single-cup systems are considerably more common in the Northeast, followed in order by the West, the Midwest and the South. In all regions, single cup commands stronger penetration in large cities than small population areas.

CHART 9: ACCOUNTS BY TYPE, 5-YEAR REVIEW

| | 06/07 | 07/08 | 08/09 | 09/10 | 09/10 |
|-------------------------------------|------------|------------|------------|------------|--------------|
| Offices | 63% | 54% | 58% | 54% | 55.4% |
| Business and industry | 20 | 24 | 18 | 16 | 18.53 |
| Restaurants, delis, bakeries | 3 | 3 | 4 | 7 | 6.23 |
| Convenience stores | 3 | 4 | 5 | 8 | 3.52 |
| Government/military | 1 | 1 | 1 | 1 | 1.45 |
| Schools/colleges | 5 | 6 | 4 | 5 | 4.84 |
| Retail outlets | 2 | 2 | 1 | 3 | 1.42 |
| Other (Health care/hotels) | 5 | 6 | 8 | 6 | 7.61 |

Where single cup represents the majority of OCS accounts in New York City, they remain virtually unknown in rural Missouri.

The higher cost of operating single-cup systems compared to batch brew systems has resulted in market dominance by very large OCS operators in the markets where single-cup systems are most common.

As a result, the larger operators have begun to define OCS as a professional specialty, more than at any time in the industry's history.

Single-cup system manufacturers have played an undeniable role in this development, a role that extends beyond simply providing products and equipment.

CONTINUED ▶

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* Information Resources, Inc., Total US – FDTKS Monthly HH Penetration 52 weeks ending 01/02/11.
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FUEL CHARGE ACTIVITY

CHART 10A: COMPANY BILLED CUSTOMERS FOR FUEL

- YES
- NO

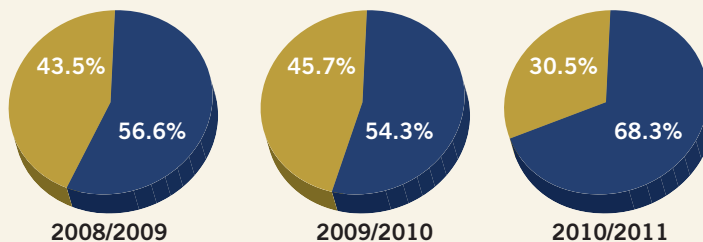


CHART 10B: AMONG THOSE BILLING FOR FUEL, HOW MANY CUSTOMERS WERE BILLED?

- ALL CUSTOMERS
- ON SELECTIVE BASIS

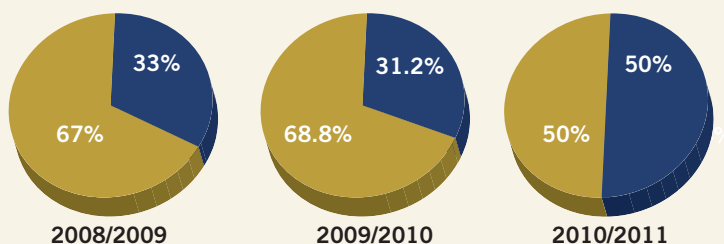


CHART 10C: AMONG THOSE BILLING FOR FUEL, HOW OFTEN WERE CUSTOMERS BILLED?

- ALL DELIVERIES
- SPECIAL DELIVERIES
- HALF OF DELIVERIES
- LESS THAN HALF

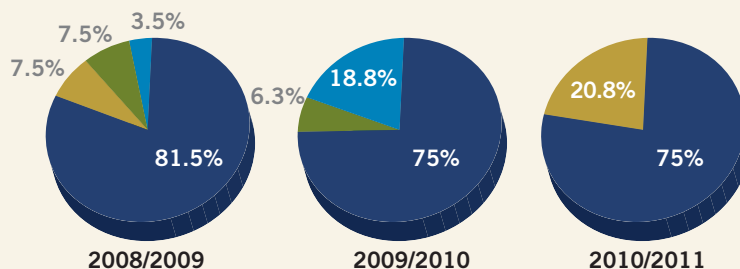
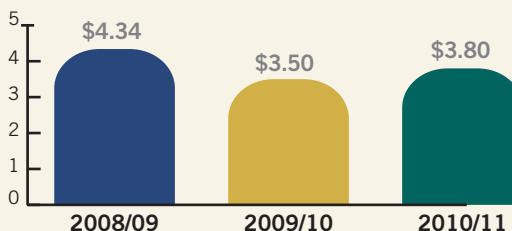


CHART 10D: AVERAGE AMOUNT CHARGED FOR FUEL PER DELIVERY



The larger operators have enjoyed sales, marketing and training support of single-cup system manufacturers, considerably more than their smaller competitors. The importance of this support on these companies' professionalism has been significant. The support has included identifying sales leads, sales training, Website development and marketing materials.

Unlike the manufacturers of the more traditional coffee brewers and fraction pack coffee, the single-cup system manufacturers have dedi-

cated resources specifically to the development of the OCS market. More traditional equipment suppliers focused on OCS in addition to foodservice. Fraction pack coffee suppliers focused on consumers, foodservice customers and retailers in addition to OCS.

THE OCS PROFESSIONAL EMERGES

The most significant OCS development in 2010/2011 has been the emergence of the OCS professional, an operator more attuned to his customer's needs, supported by an

organization aggressively focused on meeting these needs in a profitable manner.

For operators willing and able to invest in their operations, single-cup providers have directed them to query their customers to better understand their product preferences. The vast array of products available allows operators to meet a variety of customer needs.

The Internet tools that single-cup providers make available allow operators to communicate product

CONTINUED ►

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features and benefits via their own Websites and by email.

Improved marketing professionalism has proved helpful in light of the fact that many OCS customers value better quality products.

One reason these efforts have paid off for OCS operators is that many OCS customers have demonstrated a new willingness to spend money on OCS despite the recession.

While employers in most industries have not rehired workers they laid off since the recession began, many of them enjoyed record profits and were willing to spend money on productivity enhancing benefits like OCS.

Employer willingness to spend on OCS was not uniform; companies exhibiting this tendency were those that better recognized the value OCS has on employee productivity.

Many employers continued to spend less money on all benefits, including OCS. In these cases, OCS operators were able to meet the need to reduce costs by offering less expensive coffee and/or fewer allied products. As indicated in chart 6, coffee has increased as a percent of all OCS sales for the last five years.

While some customers switched away from single cup back to batch brew coffee due to higher prices, a trend first reported two years ago, these incidents were in a minority.

CHART 11: HOW RISING COSTS ARE BEING HANDLED, 3-YEAR REVIEW

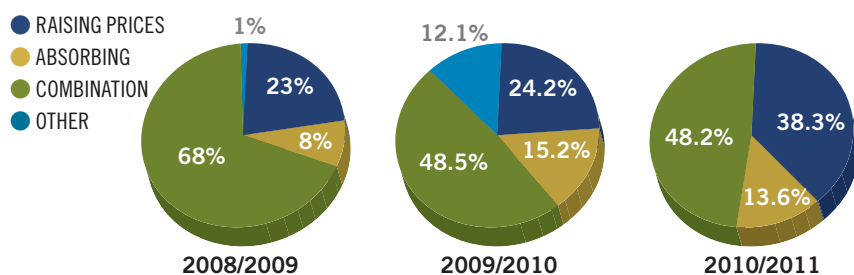


CHART 12A: HAVE ADDED OR REDUCED STAFF IN THE LAST 12 MONTHS, 3-YEAR REVIEW

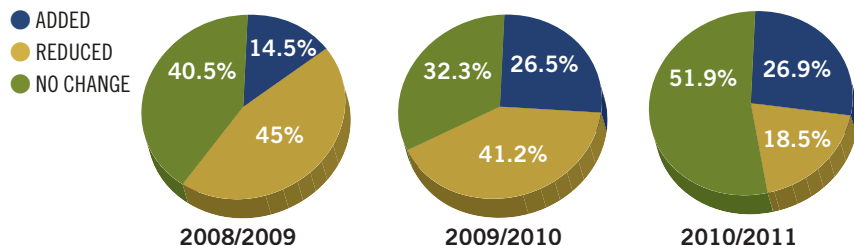


CHART 12B: IF ADDED STAFF, IN WHICH AREAS?

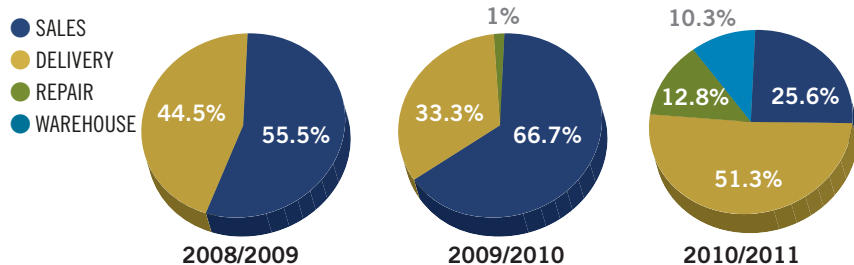
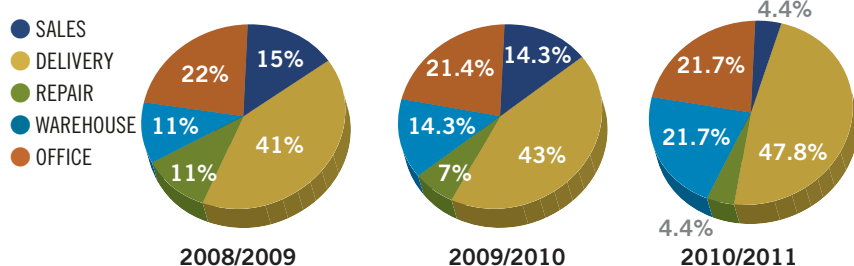


CHART 12C: IF REDUCED STAFF, WHICH AREAS?



SINGLE CUP VERSUS BATCH BREW

The economics of single-cup systems have also become more favorable to many customers despite rising coffee prices.

The higher price of fractional pack coffee in the last 12-month period reduced the price differential on a percentage basis between fractional pack coffee and single-cup coffee. The elimination of wasted coffee in the single-cup system further appealed to cost conscious customers and OCS operators, both of whom noted that more expensive fractional pack coffee has more expensive waste.

While OCS sales have returned to a growth mode, profitability has been a different matter.

Single-cup systems deliver higher sales, but oftentimes, lower profitability. The dominant single-cup systems are the portion control systems, which are more expensive on a per-serving basis but also less profitable.

In 2010/2011, one sign of the impact of portion control systems was the gain in national brand coffee at the expense of private label coffee, indicated in chart 6. This marked the first year national brand coffee gained market share over the more profitable private label coffee in several years.

CONTINUED ►

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Hence, while single-cup has the capacity to build sales, the OCS operator needs to manage costs better in order to sustain profitability.

K CUP PROFITS A CHALLENGE

The popularity of Keurig K Cups, the dominant single-cup product, has both helped and challenged OCS operators in recent years. The K Cup, the only portion control product that can be in used in both OCS and homeowner brewers, has created the largest following among single-cup coffee consumers.

Where other single-cup brewer manufacturers sought to protect their OCS customers from pilferage by not having a homeowner brewer that accepts the same portion control product as the OCS brewer, Keurig introduced homeowner brewers that accept the same K Cup as the

CHART 13A: HAVE ADDED PRODUCTS THAT ADDRESS ENVIRONMENTAL CONCERNS, 3-YEAR REVIEW

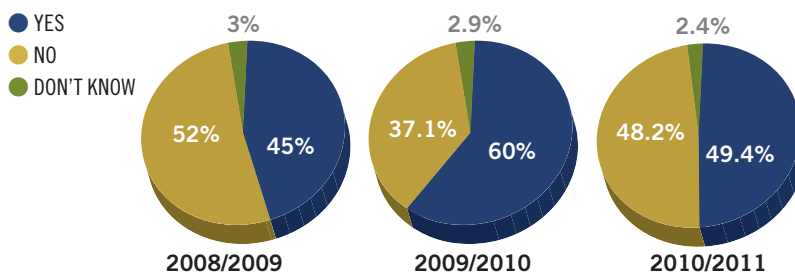
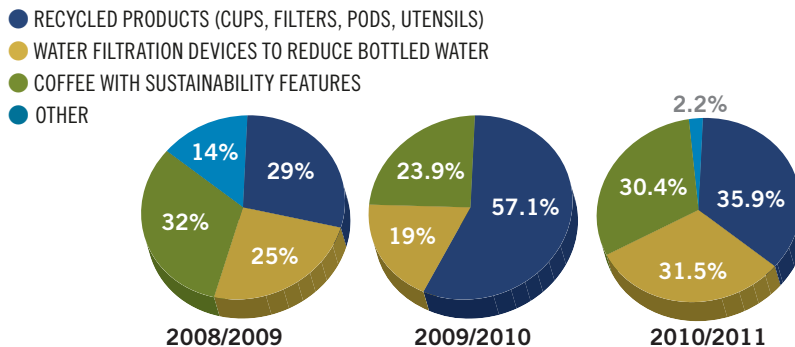


CHART 13B: PRODUCTS ADDED THAT ADDRESS ENVIRONMENTAL CONCERNS



OCS brewer. This resulted in both positive and negative impacts on OCS operators.

On the negative side, OCS operators face more competition for K Cups than they did when OCS was the only channel selling K Cups. Many OCS operators noted the widespread availability of K Cups has reduced its profitability.

Also on the negative side, the temptation to pilfer K Cups for home use is stronger now that homeowners have home Keurig machines.

On the positive side, consumer awareness of the K Cup has fostered a stronger demand for K Cups. By marketing to both workplace and homeowner audiences, Keurig has been able to build the largest audience of any single-cup provider.

In 2010/2011, Keurig's dominance expanded in both the OCS and consumer markets. Chart 8 shows the large increase of OCS Keurig shipments in 2010/2011.

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Homeworld Business magazine, which covers the consumer housewares industry, reported that unit sales of single-serve coffeemakers jumped from 2.7 million units in 2009 to 4.1 million in 2010. The magazine's staff confirmed that Keurig represents the majority of these units.

The Beverage Marketing Corp., which studies beverage industry trends, reported the number of portion control packs jumped from 2.425 billion in 2009 to 3.61 billion in 2010.

The National Coffee Association (NCA), in its coffee drinking trends report, noted people who buy the portion control system have become more likely to use it to replace their current brewer.

Perception of the single-cup systems overall also improved, moving from 26 percent who think the systems are excellent or very good in 2007 to 45 percent who think the systems are excellent or very good in 2011, NCA reported.

Concern about employee pilferage of K Cups for home use has not been a major factor for OCS operators.

Attempts to offer alternative single-cup systems continued in 2010/2011, demonstrated by the increases noted in chart 8.

Manual pod systems, which are portion control systems that, unlike cartridge-based systems like Keurig, allow operators to source different coffee suppliers, increased in 2010/2011. Operators agreed that the manual pod systems have improved in quality in recent years.

But operators also agreed that the leading single-cup providers have established dominant market positions that will be hard to displace. Operators noted that customers have demonstrated a willingness to pay higher prices for the leading single-cup products, even during a period of low consumer confidence.

While OCS operators remained frustrated by an inability to increase consumption in 2010/2011, the location downsizing of the prior two years ebbed, resulting in a stabilization of unit sales. Operators noted that customers recognized OCS provides a tangible employee benefit compared to other benefits, despite the higher cost.

A slight if temporary improvement in consumer confidence nationwide in early 2011 also played a role in the gains reported for all types of coffee retailers. The nation's unemployment rate fell from a high point of

10 percent in the fourth quarter of 2009 to a low point of 8.8 percent in the fourth quarter of 2010 before rising again to 9.2 percent in July 2011.

Operators also noticed that the accounts lost in 2008 and 2009 were less profitable accounts to begin with. Hence, the business that remained was more profitable on a per-account basis.

OCS STRENGTHENS HOLD ON ITS CUSTOMER

Another positive trend was the success that OCS operators scored protecting their business

from alternative channels, such as office supply retailers, bottled water operators, membership warehouse clubs, supermarkets and Internet sites. *Automatic Merchandiser* reported last year that these players, particularly office supply companies, became more aggressive in 2009, presumably in response to lower sales in other product segments.

Automatic Merchandiser found in conversations with product suppliers and research companies that these competing channels lost their share of OCS sales in the last year. Coffee product suppliers confirmed OCS operators' claims that these competing channels primarily cater to smaller OCS customers and were unable to provide service that customers expect from OCS operators.

The report found that layoffs among OCS operators declined in 2010/2011 compared to the previous two years, indicated in chart 12a.

A similar number of operators added staff in 2010/2011 as in the prior year, but in the recent year, operators hired more people in non-sales positions, indicated in chart 12b. This indicates operators focused more in serving existing customers than in trying to win new ones.

The percent of operators adding products to address environmental concerns declined in 2010/2011, indicated in chart 13a. Operators interviewed noted that consumers continue to place a strong emphasis on environmental issues, but are not willing to pay more for these items.

OCS operators have the tools to meet the demand for good quality coffee in the office. By investing in all aspects of their business – products, equipment, employees and marketing – OCS operators will continue to prosper. | ◀

CHART 14: COMPANY CURRENTLY OFFERS ONLINE ORDERING ON ITS WEBSITE

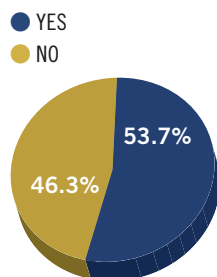
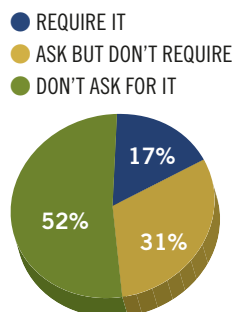


CHART 15: CUSTOMER SERVICE CONTRACTS





Survey: Drinking coffee helps Americans feel inspired

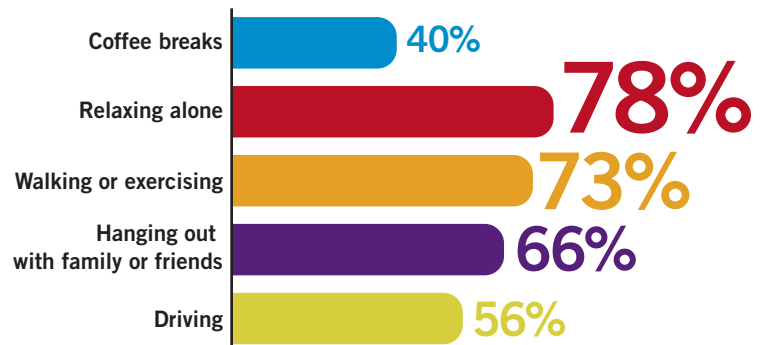
A recent survey by Don Francisco's Coffee, a retail coffee brand produced by F. Gaviña & Sons, Inc., measured inspiration among Americans today. The over 1,000 respondents averaged 66 on a scale from 0 (not at all inspired) to 100 (extremely inspired) and reported taking a coffee break as among the most inspiring moments.

According to the survey, four out of ten respondents indicated a willingness to give up alcoholic beverages, chocolate and going to the movies rather than their coffee. Java devotion had its limits, however. Respondents weren't willing to give up their car, job or sex for coffee.

INSPIRATION INDEX SURVEY

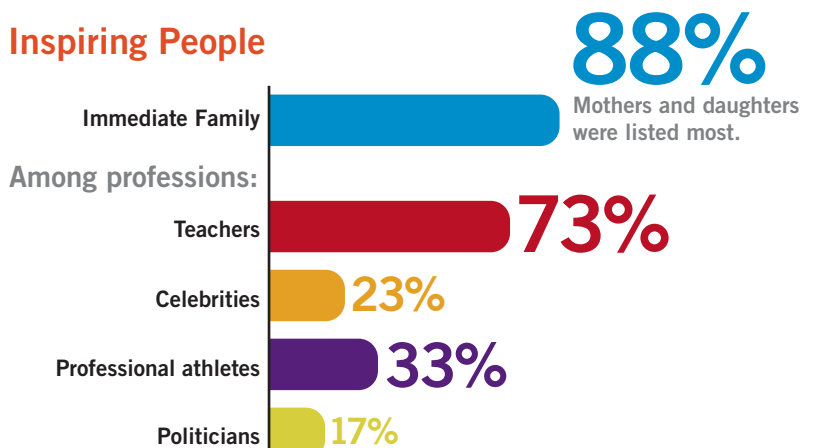
Don Francisco's Coffee developed the first-of-its-kind "Inspiration Index" as a means of quantifying the current state of inspiration of the American people, taking into account internal personal factors such as optimism, spirituality, health and well-being, along with external factors such as the state of the world, the economy, and the weather. | ◀

Inspiring Moments



Source: Don Francisco's Coffee Inspiration Index survey


Inspiring People



Source: Don Francisco's Coffee Inspiration Index survey

President Barack Obama was the public figure most frequently named as a source of inspiration.



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Southeastern Vending Association Draws Record Attendance In Destin, Fla.

Vending operators and suppliers from throughout the Southeast converged on the Sandestin Resort in Destin, Fla. in early August for three days of education, relaxation and networking, marking the best attended Southeastern Vending Association Convention ever. The association includes the Alabama, Florida, Georgia, Louisiana, Mississippi and Tennessee vending associations affiliated with the National Automatic Merchandising Association.

NFL legend Joe Theismann ended the educational program with a talk on "The Challenge of Change." Theismann signed autographics following his talk.



▲ Scott Newell of Apiqe serves attendees water from the countertop water purification system.



◀ Rick Coloredo, left, of PepsiCo Inc., joins Pattie Holt of Lincoln County Vending in Fayetteville, Tenn. and Larry Gray of G & J Marketing & Sales Inc. in Dalton, Ga.

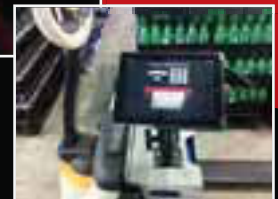
Find more convention coverage online at:
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CONVENTION REPORT



▲ Bill Hutchison of The Vending Center in Midland, Ala. welcomes Heidi Chico of The Wittern Group.



▲ Dod Hamre of Automatic Food Service in Montgomery, Ala., left, chats with Warren Philips of Validata Computer & Research Corp.



▲ Phil Nicholson, left, and Bill Himburg, both of Kraft Vending & OCS, serve Tassimo coffee to John Eastlack of Canteen Vending Services Inc. in St. Petersburg, Fla.



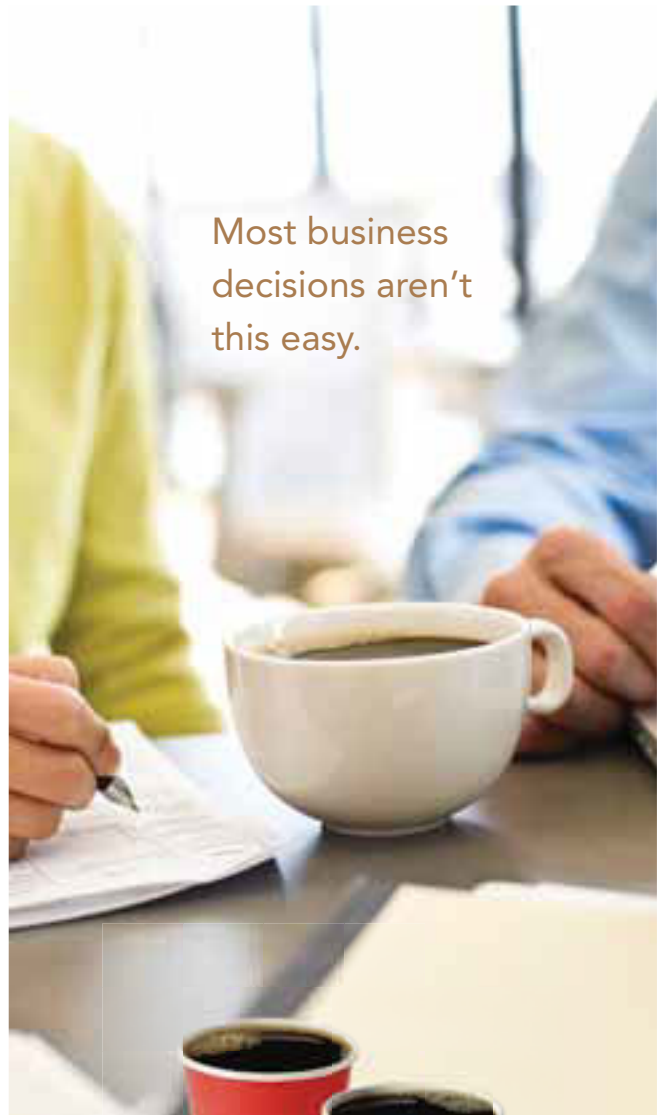
▲ NFL legend Joe Theismann speaks on the challenge of change.



▲ Geoff Paul of Excelso Coffee Co. auctions off prizes during the live auction.



▲ Glenn Butler of CTO Services LLC in Boston, Mass., left, chats with Randy Smith, SEVA chairman, during the live auction.



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Evans defines *OCS professionalism* in Metro New York

Second generation owner finds challenges bring opportunity

By Elliot Maras, Editor

Jim Evans isn't fazed by the recession. Or rising coffee prices. Or intensifying competition. In his mind, he's faced bigger challenges in the OCS business over the past few decades.

And any company that has survived amidst all these challenges has emerged as a stronger company.

Nowhere has it been as evident as in the metropolitan New York City area, the nation's largest and most competitive OCS market.

Evans Quality Coffee Service, based in Moonachie, N.J., has mastered the product knowledge, market knowledge, team strength and forward-looking vision needed to prosper in today's OCS industry.

Evans, a second generation owner, noted that a business owner must recognize changing customer needs, new technologies, and have the ability to focus on the areas the company can best serve. "Single-cup in general has changed our industry," said Evans. "It has absolutely revolutionized how people drink coffee both at home and in the office. It also comes with its own frustrations."



Jim Evans thinks challenges have improved OCS.



The current recession is only one of several challenges that OCS companies have faced since single cup became the mechanism of choice in the Northeast several years ago. Profit margins on K-Cups, the most popular single-cup product, were declining prior to the recession, forcing OCS operators to focus closely on their profit margins.

The coffee price increases in the past year have compounded the challenges even further.

But despite all of the challenges, the OCS customer still wants a good cup of coffee and is willing to pay for it.

Evans Quality Coffee Service has increased sales in the last year in double digits. Evans claims price increases account for less than half of this growth. The company has expanded its coffee selections to offer



Shipping clerk Jose Leon scans labels for a direct delivery shipment.



Above, driver Cruz Hernandez loads a delivery van that advertises products.



Left, Repair technician Matthew Valent fine tunes a Keurig brewer.

customers more variety. It has also discovered some popular new product segments, such as iced beverages. And it has also established a strong Internet sales program.

Evans is quick to credit the support he gets from product and equipment suppliers. He recognized early on the important role suppliers play in a service company's success.

More concerning to Evans than price increases and stiff competition is the fact that the economy remains in a fragile state. Refreshment service operators cannot expect volume growth until customer populations increase, and employers aren't going to invest in growth until the economic outlook becomes more stable.

But Evans is optimistic because OCS has become a specialty, and over the years, his company has mastered it.

ROOTS IN MOBILE CATERING

Evans has been in the refreshment services industry for as long as he can remember. In 1960, his father, Edward Evans, then 19 years old, bought a mobile catering truck and delivered food made in his parents' kitchen to industrial work sites.

Mobile catering was a much bigger business then than it is today. Edward Evans expanded to three trucks and began selling trucks and supplies to other mobile caterers.

In the 1970s, the company expanded into vending, manual feeding and OCS.

In 1980, Jim Evans was a teenager when his father built a 14,000-square-foot building to open a commissary. The commissary supported the vending, manual feeding and mobile catering business. OCS was the smallest part of the business at the time.

Shortly thereafter, Jim Evans attended Seaton Hall University in South Orange, N.J. and studied business management and industrial relations.

Edward Evans saw that while OCS and vending were both growing, the two businesses did not have a lot of synergies. He realized the company needed to dedicate resources to both businesses.

Between the two businesses, Edward Evans realized that OCS was a more profitable business. Hence, he acquired a 2-route OCS company in Berlin, N.J. with the intention of focusing on OCS more than vending. The Berlin branch eventually moved to Pennsauken.

In the mid 1980s, Evans acquired a small OCS company in southern New Jersey and also helped a relative start an OCS business in Boston, Mass., Evans Quality Coffee Service of New England.

The company invested in dedicated software for OCS inventory management and billing.

OCS REQUIRES A DEDICATED FOCUS

When Jim Evans graduated from college in 1984, his father offered him a job as manager for a newspaper cafeteria in New York City.

Two years later, Jim was promoted to manage the company's 25-employee commissary. The mobile catering business was still fairly significant in the mid 1980s. But membership warehouse clubs were offering product and equipment for mobile caterers. This competition, in addition to the growth of fast food restaurants and convenience stores, took its toll on Evans' catering business.

By 1990, the company's mobile catering business had fallen from 70 to about 30 trucks.

The company had diversified over the years, but in 1990, it found itself at a cross road. Mobile catering, the mainstay, was declining. Manual feeding was also declining since industrial customers were losing interest in subsidizing cafeterias.

CONTINUED ▶

Vending and OCS were small, but they were growing.

Around this time, Jim Evans moved out of commissary management and joined the company's 5-person sales team, which was focused on expanding the OCS and vending businesses. He found himself natural in the sales role, and soon became sales manager.

OCS, while a growing business, faced its own challenges.

OCS FACES CHALLENGES

A spike in coffee prices in the late 1970s resulted in a massive downgrading of OCS pack weights through the 1980s. Operators were competing on price, and profit margins suffered.

By the early 1990s, some national coffee brands began selling OCS fractional packs to membership



Brenda Kelly, right, assists Karen Walters with an order in the customer service department.

warehouse clubs, putting further pricing pressure on OCS companies.

Little did Evans know that these pressures would ultimately push the OCS industry to a stronger position.

The competitive pressures forced OCS operators to better understand the importance of cus-

tomers service. "It forced us to look at things differently, to take on different products," Evans said. "We're a service, we have to remember. We're not a club store."

Evans formed a partnership with Martinson Coffee, a private label roaster, to offer a coffee line to compete against the national brands. Martinson Coffee's own sales force assisted Evans' sales team.

Automatic thermal brewers were also introduced, giving OCS operators a new way to reduce wasted coffee.

The most significant development of all was the introduction of single-cup systems which were being introduced at OCS trade shows. Most OCS operators rejected these systems as too expensive, too labor intensive and too complicated. But not Evans.

Evans studied these early hopper-based systems and recognized the



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customer convenience and the high product quality they provided.

SINGLE-CUP TAKES CENTER STAGE

He claims he was one of the first operators in the country to begin offering customers Café System 7 machines from Crane Co., mostly on a lease basis. The system won office accounts. The company ultimately placed 100 Café System 7s, including 20 units in one hospital alone.

Being a vending operator, Evans had the staff to understand the technicalities of the unit, such as whipper motors and solenoid valves, and perform the maintenance. This was an advantage many OCS operators did not have.

The Café System 7 did present space issues for some accounts, he noted.

Then there was the Lavazza Espresso Point machine. This was a single-cup espresso machine for offices and restaurants. Evans placed about 50 of these machines.

The company expanded into bottled water in the mid 1990s, mainly as a defensive measure. By switching to slightly larger trucks, they could deliver boxes of 16.9- and 20-ounce water bottles in addition to OCS products.

In the late 1990s, a breakthrough development came in the form of the coffee cartridge single-cup system. These machines were less expensive than the hopper-based single-cup systems and provided reliable quality in a smaller footprint. The hopper-based systems had won a lot of business for the company, but the expense and the large size limited the number of locations they could go in.

Keurig was offering its K Cup cartridge system to select operations.

Evans was not the first OCS operator in the metro New York market to offer Keurig, but he was among the first. He became an authorized Keurig

distributor in 1998, when the portion control concept was still fairly new.

As an authorized Keurig distributor, Evans received sales assistance from Keurig's sales team.

"Because of Keurig, our industry has changed forever," Evans said.

When Evans began offering Keurig, single-cup systems

accounted for no more than 5 percent of its brewers.

Thanks largely to Keurig, single-cup now represents 70 percent of all brewers.


Around this time, the company also became a Starbucks preferred operator.


CONTINUED ▶

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Vending & OCS

CHALLENGES CONTINUE

The improved delivery systems fueled OCS growth at the start of the new millennium. But the growth curve wasn't smooth.

Everything was going gang-busters until the Twin Towers terrorist attack on Sept. 11, 2001.

The terrorist attack took an emotional toll that surpassed the business hit, Evans recalled. He feels fortunate that he didn't lose any employees, but many of his customers did.

The company was not able to deliver product to many customers for several weeks following the attack because of security measures.

Evans, who was then running the company, reasoned that none of his three branches were operating at maximum efficiency. He didn't feel he had the management depth to run all branches efficiently, so he decided to sell the Boston, Mass. and Pennsauken, N.J. branches in 2002 and 2003.

The company was still recovering from 9/11 when the recession hit in 2007. By then, single-cup had become entrenched, but many customers could no longer afford to spend as much money on coffee. Some accounts laid off 20 percent of their personnel.

Customers were looking to reduce coffee costs. Some even switched from single-cup systems to batch brew. Evans said less than 5 percent of the customers switched from single-cup back to batch brew.

As early as 2004, manual pod brewers were introduced as a less expensive option to the cartridge single-cup systems. Evans tested many of these units, but he didn't feel they were reliable enough.

A big problem with the pod systems was that many of the pods were incompatible with many of the brewers.



Edward Evans founded the company in 1960 as a mobile caterer.

PROFILE:
Evans Quality Coffee Service Inc.

Headquarters Location: Moonachie, N.J.

Founded: 1960

Owners: The Evans family

Number of Routes: 8 OCS, 2 vending

Number of Employees: 45

OCS Software Provider: Challengemaster

Annual sales: Not revealed

In recent years, pod systems have improved, Evans said, but the cartridge units have since established strong customer loyalty.

Evans has high hopes for the Tassimo Professional from Kraft Vending & OCS. The system's bar code technology ensures proper water level, air and temperature, which deliver a high level of quality. The system offers one of the best quality cappuccino and latte products on the market.

The sheer variety of high quality OCS products and equipment enables the company to tailor offer-

ings to individual customer needs, Evans said.

The homeowner side of the business has also created a growth opportunity.

Evans expanded into the homeowner single-cup business in 2004. He got the idea watching a friend sell car parts on Ebay.

After becoming an authorized Keurig homeowner distributor, Evans began selling boxes of K-Cups on Ebay. The response encouraged him to set up his own coffee products Website, www.coffeewiz.com. Consumers must register to use the site. Orders are sent by ground shipping.

The consumer Website marked Evans' third Website following the main company Website and a Website for selling commercial coffee products to small offices, www.northeastcoffeeco.com.

The consumer Website, www.coffeewiz.com, has required a significant capital investment. His initial outlay was \$100,000.

The consumer Website, besides offering extensive product information, hosts demonstration videos provided by manufacturers in addition to videos the company produced itself.

As location population losses ebbed in 2010, single-cup sales have rebounded for Evans. He noted that single cup placements rose 25 percent in the last year. This, coupled with Internet sales, has resulted in a 10 to 12 percent sales gain in the last year.

Evans has learned that refreshment services is a changing business, and to be successful, an operator needs to continuously understand customer needs.

Today's array of high quality coffee equipment and products allows an operator to meet customer needs better than ever. And the Internet has provided an outstanding communications tool. | ◀

Filterfresh Coffee Service Inc. Places Tassimo Pro Brewers Throughout Clearview Cinemas Movie Theaters In New York And New Jersey

Filterfresh Coffee Service Inc., the Westwood, Mass. based coffee service operation, recently placed Tassimo Professional brewers throughout the Clearview Cinema chain of 46 movie theaters in New York and New Jersey. The concession staff uses the Tassimo Pro brewers to prepare coffee by the cup for its cinema customers.

Some of the theaters have as many as four Tassimo Pro brewers.

The system's bar code technology reads every T DISC individually and adjusts the temperature, water volume and brew time to ensure that each beverage is made just right.

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Robert Jones, concessions and project analysis manager for Florham Park, N.J.-based Clearview Cinema, said the chain wanted to provide patrons with the same quality and variety they were buying at specialty coffee shops and bringing into the theaters. He said the Filterfresh contract is the first chain-wide coffee service contract for his company.

Jones said Clearview Cinemas previously used another single-cup brewer in 25 of its theaters, but that system did not provide the espresso-based beverages that the Tassimo Pro pro-



Customers and employees alike at Clearview Cinemas enjoy the Tassimo Professional's quality and variety.

vides. He said the Tassimo Pro doubled the unit sales and tripled the revenue over the previous brewer. He said the theaters price the beverages similar to what specialty coffee retailers charge; \$1.75 for regular and \$3.75 for latte and cappuccino.

"The Tassimo Pro makes it really nice because we can brew every cup fresh," Jones said.

In the months that the cinemas have had the Tassimo Pro systems, Jones said the Signature Blend and the Columbian have been the strongest selling coffees. He further noted that some of the milk-based coffee drinks, the cappuccinos, mochas and lattes, have been good sellers and have accounted for more than 20 percent of total sales.

The theaters have provided special signage to announce the coffee to their patrons, Jones said. He said they have 5- by 3-foot banners in the lobby and counter cards. One lobby has a digital menu board. In the future, the theaters will advertise the products as part of their standard screen commercials that run before the movies.

Joanna Kim, national accounts manager at Filterfresh, said the company views the Tassimo Pro as a big success in the Clearview Cinemas. "It's a great product, which is why we're proud to stand behind it," Kim said. "We're always on the lookout for new technologies."

She said the fact that the espresso-based drinks use a genuine espresso is a big part of their success. ◀



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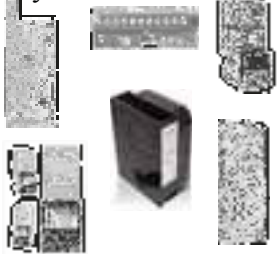
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Darrel Ford

*Service Manager
Coca-Cola United*



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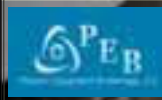
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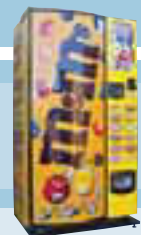
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QUARTERLY WINNER

Kristy Moyer, *Café to You by Goodman, Reading, Pa.*

Described as dependable, honest, friendly and efficient – Kristy Moyer has the qualities it takes to stand out as an OCS route driver

OCS is a profitable and expanding part of the refreshment services industry. Because of this, *Automatic Merchandiser* Magazine and Kraft Vending & OCS wanted to ensure the contributions of these route drivers didn't go unnoticed. After much discussion, it was decided to split the Route Driver of the Year contest into two, offering, for the first time, a chance for OCS route drivers to be recognized for their skills.

Nominations can be made by anyone at VendingMarketWatch.com. Click on "Awards," then "Route driver of the Year," to see the nomination choices. OCS route drivers are judged by the same criteria as vending drivers, such as years as a driver, miles traveled, accidents and citations, thoroughness, customer compliments, truck condition, and sales, assigning each a numerical score.

Kristy Moyer stood out this quarter as someone who exemplifies a model OCS driver. She was nominated by Rosie Unger, regional sales director for the eastern division at Goodman Vending/Café to You in Reading, Pa.

"Kristy has a bubbly personality and is fun to be around, and in turn, her customers love her," Unger said. "No matter what we ask her to do, she has a smile, and I never worry it's done."

"I find myself loving my job," said Moyer. She appreciates everything from being out on the road

making deliveries to her relationships with customers to the products she delivers. "I'm a coffee addict myself," she admitted. Her favorite is a Columbia coffee with cream, no sugar.

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Moyer became a driver with Goodman Vending in 2001 and since then has learned a lot about the business and how interesting it is.

"Liking the product you sell really helps," said Moyer. In January 2010, Goodman Vending decided to brand its coffee division as "Café to You." The new name was put on private label coffee, vans and uniforms, which increased sales with existing customers and drew awareness in the community for Goodman's OCS department.

Over her decade as an OCS driver, Moyer has seen an increase in the popularity of single-cup brewers.

Locations are always asking if Café to You can provide that style unit. "We (also) recently brought in a (lower) priced coffee to meet customers' needs to cut costs," said Moyer.

Moyer noted that offices and other businesses are requiring a more upscale coffee system presentation.

Outside work, Moyer enjoys spending time with her fiancé and two young children. "They keep me busy," she said. | ◀



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