

Considering self checkout?
THINK VARIETY AND QUALITY

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MERCHANDISER

The Vending & Coffee
Service Industry Resource

October 2011



Steps To Thrive

Foundation for success

Consider how
all assets relate
to customer
communications



MAKE A CUSTOMER RELATIONS PLAN

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SUCCESS STORY IN INDIANA

Independent grabs
small locations
with honor box
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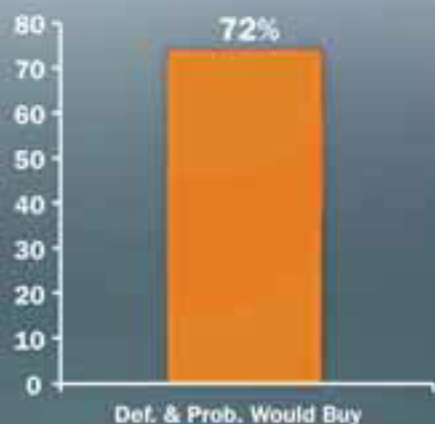
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Four Cheese Sandwich Crackers Purchase Intent³



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'Gratitude Tour' marks a whole new beginning

By Elliot Maras, Editor



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The weather couldn't have been better. The inaugural Gratitude Tours in Boston and New York City in September, the first of seven in a nationwide series through October, packed 'em in, non-stop, for hours on end.

The premier event at Boston's Prudential Center hosted a more Gen Y crowd while the South Street Seaport event in New York drew a more mixed audience.

Both events dazzled consumers with video touchscreens, some with 3-D images of spiraling brand icons, sweepstake contests and nutrition panels.

It has been decades since the vending industry invited the public to view its wares, and given the progress the industry has made in recent years, the Gratitude Tour makes perfect sense.

The name, Gratitude Tour, is intended to convey the industry's thanks to the public for its patronage. In reality, however, the bigger reward went to the industry itself since the Gratitude Tour gives manufacturers and operators a unique opportunity to witness just how powerful their products and services have become.

Welcoming attendees at entrance points were Fastcorp snack machines inviting them to "push my buttons to get free stuff."



Consumers by the thousands rediscover vending.

Standing like giant smart phones at the main entrance were the mascot machines of vending's new era: the Coke Interactive Vendor, The Pepsi Be Social machine and the Kraft Diji Touch machine, beckoning attendees to touch the graphic icons and engage in a whole new interactive experience. Consumers of all ages marveled at being able to call up nutrition information on a touch screen.

There were, in addition to the machines mentioned above, the Canteen 2bU machine, a beverage/snack glassfront with LCD screen that carries product that is locally sourced, organic, all natural, vegan, gluten-free or kosher; the PepsiCo Dream machine that recycles containers and offers reward points; the Seattle's

Best Coffee machine that brings a well known specialty coffee to vending; self checkout kiosks; and more.

Free product was offered for the grabbing at tables, but that didn't stop people from standing in line in front of machines to push selection buttons, send social media messages, upload photos of favorite products and earn reward points.

Industry salespeople dressed in custom designed Gratitude Tour shirts relished the chance to explain the features and benefits.

Forward thinking operators attended to see consumers' reactions to these marvels.

The goal of the event, according to the organizers, is to create buzz. And that it did.

But vending is about value, and that it delivered.

The greatest value delivered was to the industry since the activity allowed industry members to fully grasp what their trade has become.

The Gratitude Tour, a part of the NAMA industry growth strategy, is an experience that, if preserved in attendees' minds, will drive automatic merchandising to a whole new height in customer appreciation.

It's now up to the vending industry to make it happen. | ◀

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

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Executive Vice President
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Geoff Paul (left) and Barton Shaw (right), Atlanta Vending

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Aramark will acquire Filterfresh for \$145 million

Green Mountain Coffee Roasters, Inc. (GMCR), announced a definitive stock purchase agreement pursuant to which Aramark Refreshment Services, LLC, a provider of office coffee and refreshment services, will acquire all outstanding shares of Van Houtte USA Holdings, Inc., also known as the Van Houtte U.S. Coffee Service business or Filterfresh business from GMCR, for an aggregate cash purchase price of approximately \$145 million. The purchase price is subject to adjustment based on Filterfresh's working capital and indebtedness as of immediately prior to the transaction's closing.

On Dec. 17, 2010, GMCR acquired Van Houtte through the purchase of all of the outstanding capital stock of LJVH Holdings, Inc. At the time of the acquisition, GMCR announced it would pursue a sale of a portion of the former Van Houtte business, namely Van Houtte's U.S. coffee service business, also known as Filterfresh. GMCR has accounted for all the assets and liabilities relating to the Filterfresh business as held-for-sale in its most recent financial statements.



Brinton becomes main owner of Avanti, former partners form Breakroom Provisions

▶ Jim Brinton has purchased a majority ownership position in **Avanti Markets** from former partners Kevin Bailey and Aaron Speagle, who have launched a new self-checkout market product under the name, **Breakroom Provisions Co.** Brinton is now CEO of Avanti Markets, working from Seattle, Wash. Bailey said he and Speagle saw a need for a new self-checkout system geared toward foodservice management companies and larger vending operators. He said the company

is based in Conover, N.C. and has begun shipping units to customers.



Dr Pepper Snapple seeks bigger stake in Hydrive energy drink

▶ **Dr Pepper Snapple Group Inc.** will try to buy up to 40 percent of **Hydrive Energy LLC**, based in Rye, N.Y., giving it a larger stake in the fast-growing energy drink category, according to *The Dallas Morning News* in Dallas, Texas.



Apriva LLC moves to bigger headquarters facility

▶ **Apriva LLC**, provider of end-to-end wireless transactions and secure information solutions, moved its corporate headquarters to a larger facility in Scottsdale, Ariz. The new address features over 50,000 square feet of space to accommodate the approximately 160 employees that work out of Apriva's headquarters, representing an increase of some 20,000 square feet over its previous location.



Vistar Corp. buys Vend Service Inc. in the Southeast

▶ **Vistar Corp.**, a division of **Performance Food Group**, has acquired **Vend Service Inc.**, a Rome, Ga.-based vend product distributor with a distribution facility in Ocala, Fla., for an undisclosed sum, according to Mike Sidwell, president of Vend Service. The company was founded in 1965 by Sidwell's father, Carl Sidwell.

Sidwell said he and his brother Mark, vice president, will continue to work for Vistar in some capacity, while their sister, Diane, secretary/treasurer, will leave the company. He said the Rome, Ga. facility will merge with Vistar's Suwanee, Ga. facility while the Ocala, Fla. facility will merge with Vistar's Kissimmee, Fla. facility.

Vend Service was part of the Vend Channel, a coalition of five independent regional vend product distributors that collectively cover the U.S. and provide a variety of online services to operator customers.

Sidwell noted Vend Service employs about 100 people.

U.S. Foodservice acquires Brea, Calif. foodservice distributor

▶ **U.S. Foodservice**, announced it has acquired the foodservice distribution business of **White Apron**, a supplier and processor of premium fresh meats based in Brea, Calif. The business will be integrated into the U.S. Foodservice-Los Angeles division, based in La Mirada, Calif.

Canteen buys Coffee Break Service and North Shore Industrial Vending

▶ **Canteen Vending Services Inc.** acquired **Coffee Break Service Inc.** in Baltimore, Md. and **North Shore Industrial Vending** in Lincolnwood, Ill. near Chicago. Coffee Break Service operated one and a half routes and had five employees. Coffee Break Service was founded in 1962 by Fred Sapperstein and was incorporated in 1989 by Fred Sapperstein and the late Winnie Sapperstein and their son, Steve Sapperstein. North Shore Industrial Vending was founded 30 years ago by Jerry Spathis, president, and operates eight routes which will fold into Canteen's existing business.

Jammin Java partners with BC Coffee

▶ **Jammin Java Corp.** has partnered with **BC Coffee & Supplies, Inc.** for distribution of its coffee lines in Florida. BC Coffee's distribution hub will also provide coffee to Jammin Java's customers in the Caribbean. BC Coffee has been in business for over 30 years and is the largest OCS/breakroom distributor in the Southeastern U.S. and currently distributes coffee and associated products to over 300 OCS/vending companies throughout Florida.

Vending repair training program moves to new Philadelphia school

▶ The vending repair technician training program at Edison Fareira High School in Philadelphia, Pa. has moved to the Randolph Skills Center in Philadelphia.

The Randolph Skills Center is located on Henry Avenue about four miles from Edison Fareira High School, according to Bud Burke, who is an advisory board member for the program. Burke said the board was not satisfied with the manner in which the program was being managed at Edison Fareira High School.

At the Randolph Skills Center, Burke said the program will have the necessary support from the school's administration.



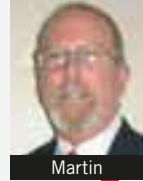
Kraft offers chance to fight hunger, win trip

▶ **Kraft Foods Inc.** will donate one meal to local Feeding America food banks for every case vending operators purchase of qualifying Oreo and Planters Peanuts products through Nov. 4, 2011. Vending operators who participate in the program are given the chance to win a trip for two to the Kraft Fight Hunger Bowl in San Francisco, Calif. For more information, contact a Kraft vending account manager or visit kraftvendingocs.com.

People in the News

John Martin retires from SunBurst

John Martin, a 25-year veteran of the food and refreshments industry, has retired. He most recently worked in business development for SunBurst Foods Inc. in Goldsboro, N.C. Before joining SunBurst Foods, he was director of sales and marketing at South-eastern Vending Services Inc. in Charlotte, N.C.



Martin

Grindmaster-Cecilware tabs Avenado

Grindmaster-Cecilware Corp. named Jose Avenado vice president of engineering. He will be based in Louisville, Ky. and will be responsible for all aspects of engineering for the company. Avenado was most recently employed at Crane Merchandising Systems in St. Louis, Mo. as director of refrigeration and product reliability.

PepsiCo: Carey new CEO, Foss to retire

PepsiCo Inc. announced Albert Carey has been named CEO of PepsiCo Americas Beverages while Eric J. Foss, chief executive officer of Pepsi Beverages Co., will retire effective Dec. 9, 2011.

de Jong Duke names Duprey sales manager for North America factory

de Jong Duke, a Holland-based provider of high tech single-cup coffee brewers, has strengthened its commitment to the North American market with the recent announcement that Bill Duprey will be based in the company's Taylor, Mich. manufacturing plant as sales manager for the North American market.

CALENDAR OF EVENTS

OCT. 18 - 20, 2011
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, 2011
Atlantic Coast Exposition (ACE)
 Embassy Suites at Kingston Plantation,
 Myrtle Beach, S.C.
 Phone: 919-387-1221
info@atlanticcoastexpo.com
www.atlanticcoastexpo.com

MARCH 14-16, 2012
National Bulk Vendors Association Conference
 Las Vegas Convention Center, Las Vegas, Nev.
 Phone: 480-302-5998
admin@nbva.org
www.nbva.info/

APRIL 25-27, 2012
National Automatic Merchandising Association OneShow
 Venetian/Sands Resort, Las Vegas, Nev.
 Phone: 312-346-0370
www.vending.org

Research: 'hot buttons' for growth and key consumer coffee taste profiles

Coffee roasters and retailers alike have created a bigger variety of customer tastes. With today's product variety, refreshment service operators have numerous opportunities to capitalize on this growing market.

The *Automatic Merchandiser* State of the Coffee Service Industry Report, published in September, revealed several "hot buttons" for OCS operators looking to grow the business. They are:

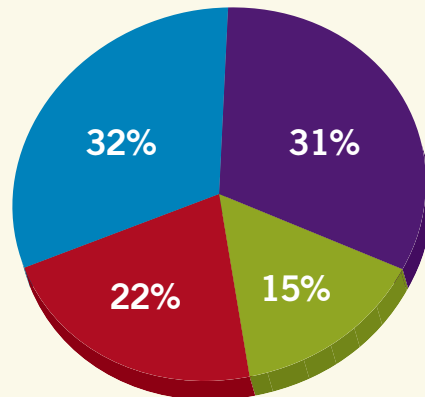
- **Reinforce the OCS message.** OCS remains one of the most affordable employee benefits.
- **Engage the customer.** Use the Internet and social media to engage the customer. This creates opportunities to build the ticket.
- **Cover more day parts.** OCS offerings extend beyond the morning coffee. Afternoon "pick me ups" include milk-based drinks like cappuccino and latte, iced coffee, iced teas and hot tea.
- **Invest in service and delivery.** All employees need to be OCS ambassadors. The strength of the company's message is as strong as its weakest member. Commit to ongoing coffee education for employees.
- **Plan your attack.** The OCS customer's needs change as more products are introduced at retail. OCS companies must have a business plan and review it at least annually with respect to changing customer needs.

KEY TASTE PROFILES

In addition to these hot buttons, consumer research sponsored by Mars Drinks North America indicates several key coffee taste profiles that collectively cover all consumer needs. Company officials said consumer feedback indicates these profiles are consistent in all geographic U.S. markets.

KEY COFFEE TASTE PROFILES

- Light and smooth: Refreshing, clean and sweet for the all day coffee drinker.
- Dark and intense: Dark roasted, intense and full bodied for those who enjoy a complex cup.
- Medium and bright: A lively experience for the adventurous who enjoy different aromas and fruity flavors.
- Medium and balanced: Distinctive flavors for discerning palates who know what they like.




Source: Mars Drinks North America

By tailoring OCS offerings to these distinct profiles, operators can increase their sales. The profiles are: light and smooth, dark and intense, medium and bright, and medium and balanced, in the market share noted in the accompanying chart. Mars Drinks North America has also identified having the right tea assortment at work can impact customer satisfaction:

- Select green, English breakfast and raspberry herbal tea will satisfy 49 percent of the consumer needs.
- Adding white with orange tea to the above assortment will satisfy 60 percent of the consumer need.
- Adding chai ice spice and peppermint herbal to the above will satisfy 75 percent of the consumer need. | ◀



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Foundation for success: customer relations

By Elliot Maras, Editor

A changing business environment requires a strategic approach that considers how all assets relate to customer communications.

With change coming fast on so many fronts – customer needs, products, technologies, and new competitors – can vending operators adapt quickly enough to survive?

Most operators recognize the business environment is changing. But with the day-to-day challenges they face in a difficult economy, operators are unsure where to begin making changes in their operations. Operators are unsure which technologies to invest in and where they will get the best return on investment and improve customer relations.

Automatic Merchandiser this past year profiled operators who use new technology successfully. But many readers wonder if these are not exceptions whose experiences cannot be easily duplicated by the average operator.

In the interest of helping a “typical” operator strategize in a challenging industry, *Automatic Merchandiser* has developed a customer relations action plan designed to help operators determine what technology tools make the most sense, given that operators’ resources are limited.

Automated systems are replacing manual ones at a time when consumers are more attuned to technology than ever, and are more

demanding of the products they buy from service providers. The new tools create new opportunities, but at the same time, new challenges.

One operator who recently upgraded her Website noted the frustration she encountered because of the capabilities that the new Website created. On the positive side, this operator, who asked to remain anonymous, said the upgraded Website has drawn more customer inquiries and has provided a tool to pre-screen customers. At the same time, she said some customers began asking for things like video touchscreens that are too expensive, while others that she would expect would want the most state-of-the-art tools only want the most basic service.

With all of this change occurring, the vending operators’ role continues to be one of meeting the refreshment needs of consumers conveniently while they attend to both at-work and non-work functions.

TECHNOLOGY BRINGS MORE CHOICES

Automatic Merchandiser has spotlighted a host of technology-based solutions to emerge in recent years that give operators new ways to meet their traditional objectives: cashless payments, remote machine monitoring, touchscreen messaging, self checkout markets, automated warehouse management, etc.

The new tools create new operating efficiencies that enhance customer service. In some cases, such as cashless payments and touchscreen promotions, the new tools create new customer conveniences as well.

In assessing the benefits of these new tools, *Automatic Merchandiser* concluded that virtually all of



the decisions operators face regarding these tools have to do with making their businesses more customer relations focused.

Hence, the very purpose of the service that automatic merchandising provides gives focus to reorganizing an operation with new technologies.

The proliferation of tools makes planning more necessary. Few operators have the resources to take advantage of every conceivable tool now available.

STARTING POINT: WHO AND WHAT ARE YOU?

The underlying question that an individual operator must ask is: What is the company mission?

The operator who sees his or her mission as providing the largest assortment of products at the lowest possible price will be different than the one who defines the mission as creating a memorable refreshment experience.

By understanding their mission, operators can develop more specific goals in the areas of service delivery and marketing.

The operator who successfully introduces automated warehouse management will be able to serve more customers with fewer route drivers. How to make best use of the labor savings will depend on what the company's goals are in the area of customer satisfaction.

The company interested in minimizing customer interaction will be more likely to assign the former route drivers to tasks having less direct impact on customer service.

The company interested in maximizing customer interaction will be likely to promote a former driver to customer relations specialist, a move which could require additional training.

COMPANY MISSION DICTATES CHOICES

Providers of some of the new technologies introduced in recent years, such as dynamic routing, have emphasized the opportunities for improved customer interaction (due to giving drivers more time to spend with customers). However, in conducting field research, *Automatic Merchandiser* learned that some of the most technologically progressive operators believe the technology minimizes the need for customer interaction.

This point of view is consistent with those who have long believed that the best vending

service is the one that remains unseen and unheard.

Operators who hold this view are those who were less likely to conduct customer surveys in the past and are least inclined to engage in social media in the future.

Again, the purpose of this article is not to advocate one school of thought over another. The goal is to recognize that as new tools arrive on the scene, operators must know their objectives as service providers. This understanding will enable them to determine what tools to invest in and what roles to assign employees.

An operator could, for instance, want to have a high level of interaction with the account decision maker but keep his actions largely out of view of the end users.

Such an operator would be likely to have a newsletter for the decision maker but not have a Facebook page inviting end users to participate in company sponsored contests.

Another operator might take the opposite view and seek to influence the decision maker through the end users.

STEP 1: WRITE THE MISSION STATEMENT

The first step is to write the company mission in a few succinct sentences. Everything the company does should be covered by this mission statement.

STEP 2: LIST WHAT COMPANY PROVIDES

The next step is to make a list of everything customers want from your service. There should be two lists: decision makers and end users. The decision makers may want the following:

- Sales reports
- Commissions
- Statements documenting user satisfaction
- Updates on new products available
- Reports on machine inspections

CONTINUED ►



The end users will want the following:

- Good value for their money
- Clean and attractive machines
- Convenient payment options
- New products on a regular basis

STEP 3: LIST COMPANY ACTIVITIES

The next step is to list every ongoing activity the company conducts: Training, record keeping, phone followup, filling bins in the warehouse, etc.

STEP 4: MATCH COMPANY ACTIVITIES TO CUSTOMER EXPERIENCE

Then list how each activity relates to the account decision maker and how it relates to the end user.

This will be a long list. It will allow every employee to see how their task affects the customer.

STEP 5: HOW ROLES IMPACT CUSTOMERS

The next step is to list all the positions in the company and how each position impacts customer satisfaction. This step has taken on new importance in companies that have introduced technology tools since new technology has changed some employees' tasks.

Pre-kitting and dynamic scheduling, for example, allow drivers to service more stops. In some cases, it results in fewer visits to locations.

If the company believes maintaining contact with customers is important, management must determine how this contact will be provided. With today's communication tools, there are more options for providing this than ever.

Item-level reporting at the machine level allows the operator to provide customers more detailed information about location product preferences. Remote machine monitoring gives operators a tool to make transaction information accessible to account decision makers without leaving their desks.



GNC Vending LLC in Houston, Texas has found the Vend.Love.Win Facebook materials helpful as customer relations tools at locations.

Management must decide if providing this information is beneficial to its customer relations and if so, develop processes for gathering it and providing it.

In interviewing operators, *Automatic Merchandiser* found varying opinions about how much information to share with customers. Providing unwanted information can hurt more than help customer relations.

Many operators noted that it is important to decide what information to gather since every task costs valuable employee time.

STEP 6: LIST COMMUNICATION TOOLS

Once the company has decided what types of information to communicate, and to whom, the next step is to decide what communication tools to use. These include the traditional tools such as customer newsletters, in-person visits, direct mail, telemarketing, as well as the newer and

more powerful tools like Internet Websites, email, and social media.

The final step is to executive the plan.

CONSULTANTS ADVOCATE NEW TOOLS

William Donohue, Ph.D., a professor and director of sales communication at Michigan State University who has participated in the National Automatic Merchandising Association (NAMA) executive development program, thinks tools that give operators more feedback from end users are more important than many realize. He said account decision makers only hear from a minority of end users.

“The vending machine people never get information from the people who put money in the machines,” he said. “We have to somehow get more direct linkage between the operator and the people who stick money in the machines.”

Donohue urges operators to seek consumer input via their Websites.

“Operators should explore making the vending experience more direct and even more fun,” Donohue added.

Tom Siciliano, who operates Integrity Recruiting & Consulting Inc., a Huntley, Ill.-based NAMA Knowledge Partner, said there are many online tools for businesses to use to support their social media outreach. One such tool is HootSuite, which allows a user to schedule social media posts automatically.

Siciliano said social media is a very cost effective way to reach targeted audiences. For vending operators, he said it's a great way to help clients do their jobs better.

He noted there are also tools that allow a business owner to find out who is looking at their online information. He suggests operators find consultants who are knowledgeable about these new tools.

CONTINUED ►

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Sheryl Barlow, director of business development at CWS, a Rochester, Minn.-based web design firm, said social media is becoming a more important tool for businesses. She acknowledged that some owners are concerned about soliciting negative feedback, but she said businesses can control the information they make available for employees and customers to see.

Barlow's company is developing a social media program for D&R Canteen in Rochester, Minn.

OPERATORS EXPERIENCES VARY

Operator experiences using new tools for customer relations report varying experiences.

One operator who recently introduced SPIO redeemable coupon dispensers on machines and self checkout markets said he believes the technologies enhance customer relations significantly. These customer enhancements have increased sales and profits for his company. "We're having better success at getting no-commission accounts," said the operator, who did not wish to be identified.

He noted that to successfully use technology, it is important to have good employee training programs. The technology solutions he provides can create big problems if the field execution is not good.

This operator is among those who welcome the NAMA Facebook contest and gratitude tour to promote new vending technology.

Vending operators have not been quick to embrace social media. The *Automatic Merchandiser* State of the Vending Industry Report found only 22 percent are using it.

More operators have, however, recognized the need for more professional Websites. Operators have learned that customers are using the Internet to find service providers,

Customer relations action plan

- 1) Write the company mission.
- 2) List what the company provides customers.
- 3) List all company activities.
- 4) Match company activities to customer experiences.
- 5) List how all vending employee roles affect customer experiences.
- 6) List communication tools impacting customer relations.
- 7) Execute the plan.

and a user friendly Website helps win customers.

Vend Central Inc., a Pleasanton, Calif.-based provider of Website design and marketing services for vending, finds vendors more interested in improving their online presence, noted Neil Swindale, company owner. Swindale's services include search engine optimization and online videos. "Videos are the fastest growing thing online," Swindale said. "People love to watch product and service videos."

P&Js Vending in Hopkington, Mass. recently launched a blog on its Website, noted Laura Kelly, customer relations manager. The company is promoting the NAMA Vend.Love.Win Facebook contest, inviting people to submit photos and videos to win \$200. "It gave us a way to be relevant through social media," Kelly said.

CNC Vending LLC in Houston, Texas also recently began promoting the Vend.Love.Win Facebook contest, noted Chuck Olson, company owner. He has used vending machine stickers and banners provided by NAMA's marketing com-

pany, Healy & Schulte in Chicago, to promote the Facebook contest.

Paul Tims, owner of Imperial Vending Co. based in Tulsa, Okla., said he relies mainly on sales people to educate customers about new technologies such as automated warehouse management and the Sprout prepaid card.

Sid Greenspan, president of Vendrite Vending Corp. in Whitestone, N.Y., agreed that personal interaction remains his main education method. He said Websites are not the main tool for customers seeking new services. As for social media, he said it is useful for reaching younger decision makers.

John Mitchell, president of Treat America Food Services based in Merriam, Kan., said solutions such as the Sprout prepaid card and self checkout markets allow companies to build same location sales, and fortunately, today's management software allows him to measure sales growth more effectively.

Aldar Vending, a Hackensack, N.J.-based company that has invested in various technologies, was advised by a consultant that search engine optimization and social media are not the best investments for a vending operation, noted Mike Ehrentreau, owner.

Refreshment services has always been about customer service. Operators will find that fine tuning their customer relations activities will deliver more satisfied customer and ultimately better business results. | ◀

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Customers will pay for better water

By Emily Refermat, Managing Editor

With increased customer education on filtration benefits, water can be a profitable add-on service.

It's no secret locations are money conscious when it comes to vending and office coffee service. However, water service is trending upwards.

According to the Water Quality Association, a non-profit international trade association representing the water treatment industry, more than half of Americans are concerned about the quality of their water and will take action in their homes, revealed by a 2011 independent survey by Applied Research-West, Inc. The study found a majority of consumers are now willing to pay more to eliminate contaminants, especially those respondents who had experienced a "boil water alert," (about 19 percent). More than half typically purchased a filter pitcher or end of tap device, compared to 38 percent in 2008. Additionally, 54 percent are concerned about health contaminants in tap water, and 42 percent believe the water is not as safe as it should be.

This has implications for refreshment service operators because these people are decision makers when it comes to adding water service. And the good news is there are more options than ever to satisfy their concerns, including better sanitation processes that don't waste water.

MULTIPLE FILTER OPTIONS AVAILABLE

"It's really just educating the end user what options there are," said Cliff Rosen, president of KoolTek. He recommends operators open with a "good, better, best" presentation of water filtration. This way, the location can balance cost with their desire for filtered water.

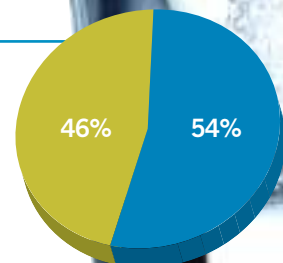
Filters have really come a long way, according to Rosen. For coffee brewers, he recommends a 5 micron carbon filter, which eliminates most contaminants that will affect taste and will take out odors. A micron is a unit of measurement. The smaller the micron number, the better the filtration, because it prevents particles and parasites of smaller sizes from going through the filter with the water.

In the case of the coffee brewer, the water is being boiled, so more intense filtration usually isn't necessary.

For drinking water, Rosen said the filters can now go down to a half micron to filter out extremely tiny impurities. "To give you a comparison, a human hair is 100 microns," said Rosen. "The filtration available today is just mind boggling."

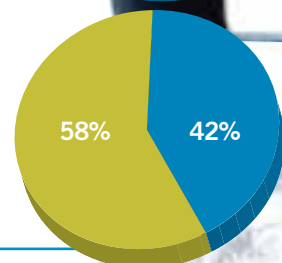
CONSUMERS CONCERNED ABOUT HEALTH CONTAMINANTS IN TAP WATER

- Concerned
- Not concerned



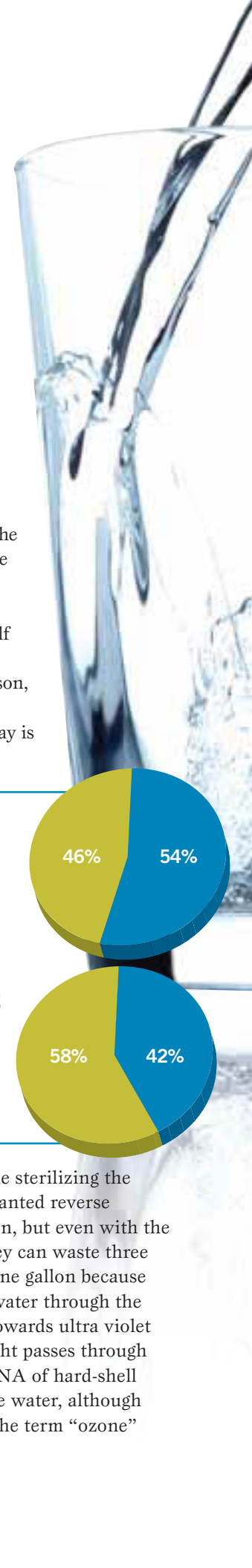
CONSUMERS BELIEVE WATER IS NOT AS SAFE AS IT SHOULD BE

- Not as safe
- Safe



Source: Applied Research-West, Inc.

More expensive options include sterilizing the water. Five years ago, everyone wanted reverse osmosis systems, remembers Rosen, but even with the units becoming more efficient, they can waste three to four gallons of water to make one gallon because of the pressure required to force water through the membrane. Instead, the trend is towards ultra violet (UV) treatment, where the UV light passes through the water and breaks down the DNA of hard-shell bacteria. Ozone units also sterilize water, although these are not as popular because the term "ozone" disturbs end users.



Rosen believes selling water service is about sharing information with the end user. Not to scare them with it, but enough for them to make an informed decision.

Roger Egli, sales executive at Hydro Life Inc., hears a lot about how operators want to cut their maintenance costs. He offers a solution to lime scale, which can otherwise build up and damage hot beverage equipment. The Hydro Life media alters the molecular structure of calcite (lime scale) by changing the number of oxygen atoms within the molecule. The calcite becomes a substance called aragonite, which has no clinging capability, allowing the scale to remain harmlessly suspended in the water as it passes through the equipment holding tanks and water lines without adhering to equipment surfaces.

“There are no chemicals of any kind used in our media. It is completely chemical free,” Egli added.

Eliminating lime scale without the use of chemicals is a niche for operators serving the espresso market, according to Sergio Trevino, senior account executive of Omnipure Filter Co. While phosphate can be added to water to prevent scale on drip coffee brewers, there are applications where using special softening filters that include a combination of carbon and resin is preferred to protect equipment and improve taste.

“Espresso is made under pressure where all the water in the tank is turned into steam, so phosphate doesn’t work,” said Trevino. Instead, he recommends operators soften the water before it goes through the machine to protect the espresso brewer, an expensive piece of equipment.

Trevino has heard customers say even less expensive coffees have more flavor when made with filtered water.

Jim Nelson, director of sales for Everpure, LLC, tries to get operators to see the value in decarbonization filters, those that eliminate lime scale. “Most operators want a \$10 filter, no scale, that lasts forever,” he said. He teaches operators about the return on investment for filters, such as spending more on a decarbonization filter on the 10 percent of accounts that account for 50 to 60 percent of the service calls.

“If it costs you \$300 a year, but saves you 12 service calls, it’s worth it,” said Nelson.



Water filters come in various sizes and styles. This cartridge from Pure1 Systems filters water from 5 microns down to 0.5 micron, eliminating 99.9 percent of impurities and bacteria half micron in size or larger.

DYNAMIC FILTER SERVICE

To be effective, filters need to be changed regularly, so Everpure offers an online filter service program. Operators enter installation and replacement dates, and the program will send out a reminder email.

“A byproduct (of the filter) is taking most of the alkalinity out which produces great coffee, and great iced tea,” added Nelson.

FILTERED DRINKING WATER MARKET IS GROWING

A new company, Apiqe, is offering water that can be made

individually for the end user. “Office employees drink, on average, 10 times more water than coffee,” said John Margaritis, president of sales at Apiqe.

The Apiqe unit is described as a countertop water dispenser, which serves room temperature, chilled, or hot water in a single serving. The end user can add sparkling water and/or flavor enhancers.

“We will see some new technologies soon in carbonation and water flavoring enhancing,” said Margaritis. He added that the carbonation technology has already advanced to a point where the Apiqe unit does not require a compressor tank, pump or electronics, allowing it to be a countertop unit.

POINT OF USE GROWS

The most popular water filtration system today is point-of-use because it eliminates bottled water charges and is fairly inexpensive. According to Carl Sutera, president of Pure1 Systems, it’s been a progression that began when big companies started making filters and lending credence to the idea of filtered water, together with the fact that all bottled water is filtered.

“When water companies started doing coffee service, it made OCS companies take notice,” he said. With the advent of quality point of use technology, the OCS operators were able to retaliate by adding water to their services. “(Companies that) go to the table with everything get the business,” observed Sutera.

Pure1 offers a new 4-zone cartridge that goes from 5 micron filtration down to a half micron absolute, which eliminates the need for separate prefiltration. “Without an absolute rating, 1- and 2-micron bacteria

CONTINUED ►

could potentially get past the filter,” Sutera said. Using this filter would ensure protection even if a boil water alert were announced.

Sutera also touts how green the cartridge is compared to other models on the market. It’s a small, efficient filter with a lifetime warranty. The inner cartridges, which are the parts that get replaced, are able to be incinerated instead of just thrown away. The sediment cartridge is made of spun polypropylene, which makes it less expensive and tougher than brittle ceramic filters. “And we manufacture the products in the U.S.,” added Sutera.

Many operators have turned water service into a premium water program, according to Everpure’s Nelson. Operators are charging for cleaning, sanitizing, changing filters, etc.

Nelson suggests operators charge to upgrade filters too. Everpure offers an ultrafilter technology that has a membrane made of millions of piano wire looking straws. It’s certified by the National Sanitation Foundation as a purifier, so it reduces bacteria and viruses. It is hard for reverse osmosis manufacturers to get the virus-elimination certification, although Nelson admits that it does eliminate them. “So operators can upsell virus protection even to customers with reverse osmosis systems,” he said.

Most operators lease a water filtration system to the location and charge them a rental fee per month. “It’s a good revenue model,” added Nelson.

Nelson sees fixed pressure water reducing valves as the next trend in new technology for the water industry. “Insurance claims (after a water leak) are going up and up,” said Nelson. Especially in high rise buildings where the water pressure is likely to fluctuate, there is a possibility of the pressure breaking a filter or splitting a line. Nelson remembers when those claims were to clean carpets or fix baseboards, but now water can

How to break into water service

Cliff Rosen, president of KoolTek, tells operators to do the following homework to add water filtration:

- **Call the water municipality and get a report on the water.**
- **Determine the water’s use: brewers or drinking water.**
- **Determine three price point presentations, including filtration and frequency of filter changes.**

To assist operators in educating customers, Rosen offers information sheets, flyers and data from NSF International, an accredited, third-party certification body that tests and certifies products to verify they meet public health and safety standards.

damage expensive servers or high-end copy machines. “We’re going to work at NAMA (National Automatic Merchandising Association) to focus on best practices, and the potential for liability,” said Nelson. “I know pressure regulators are going to be a required part of any installation going into a high rise.”

BOTTLELESS OFFERS AN OPTION

There’s an opportunity for new bottleless water coolers, which save the end user money, hassle and still provide top quality drinking water, according to Bob Cooper, co-owner of ZeeCooper & Co., LLC. “It’s much more cost effective versus bottled water coolers,” he said. It also allows the operator to guarantee certain filtration standards.

Units that allow multiple filters give operators diverse choices. Cooper noted filters can be chosen based

on their rating; how fine a particulate they filter; and what the filters remove, such as chlorine taste, odors, and particulates such as lime scale or parasites like giardia cysts and cryptosporidium.

Besides the savings in 5-gallon bottle fees, delivery fees and the storage problems, going bottleless can actually make water free to locations. According to Cooper, some offices don’t pay for water usage. This means a plumbed-in water cooler will only cost the location for service and filters. Coupled with the fact that the connection processes for coolers have become easier to perform, offering a bottleless water cooler makes a perfect add-on service for operators.

Because many operators already look at water as an add-on, Cooper sees the price of the cooler units as important. He’s found the price difference between an inexpensive and expensive model tends to be its “bells and whistles.” “The big one is a digital read out,” said Cooper. The digital read out shows the end user what the temperature of the water in the cooler is. While this is a nice feature, operators have an increase in service calls when the end user sees minor temperature changes. Cooper had an operator who didn’t want the digital read out because it was too much information. Customers would call him for service anytime the numbers didn’t seem right, regardless of whether the water was still cold or not.

Water filter technology has come a long way. Many customers want the peace of mind that comes with a water service program. ▶

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Considering self checkout? Variety and quality are paramount

By Allen Weintraub, Contributing Editor

Operators must be retail merchandisers to make kiosks work

Self checkout vending markets (SCVMs) continue to grow at a rapid rate. As challenged as our industry's operating environment has become, these SCVMs are popping up nationwide and delivering outstanding sales.

Change is never easy. To offer a SCVM, the vending operator must invest in new equipment, learn how it works, invest in new products, and establish a new delivery system.

But progressive operators are finding these SCVMs allow them to provide consumers the values they want.

What do installations of SCVMs to date teach us?

The most dramatic difference over vending is the number of stock keeping units (SKUs) available to the consumers through SCVMs as compared to vending. Patrick Hagerty, president of Vistar Corp., told *Automatic Merchandiser* that when a SCVM replaced vending at Vistar's headquarters, the SCVM offered about 300 SKUs, which is far more than the vending machines did. My research indicated that a

SCVM carries an average of 272 SKUs.

However, just as important as the number is the quality of the SKUs available.

From my vantage point, operators are learning they must become true retail merchandisers to be successful with SCVMs. This isn't to say the same thing isn't true about vending. But with SCVMs, the stakes (and the potential benefits) are much higher.

THE FACTS DEFINE THE TREND

According to BCC Research in Denver, Colo., in the next five years, sales volume through self checkout will grow at a compound annual growth rate of 9.3 percent compared to vending's 3.2 percent. This 9.3 percent refers to all types of self checkout, including the



systems used by traditional retailers. It's safe to assume that the vending self checkout growth will be much faster.

If kiosk operators do not expand their product lines and merely replicate vend items, the consumers at the SCVM locations will soon become dissatisfied.

Recently I visited a location with multiple kiosks. The location manager was seeking to replace the SCVM operator because the product selection was merely replicating vending machines. The location manager eventually selected another

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kiosk operator who offered a wider diversity of products, especially fresh food selections.

FOOD SELECTIONS ARE VITAL

Vending operators, who traditionally view fresh food as a burden, must become more innovative with food when introducing a kiosk and think of themselves as restaurant operators. Fresh food is not the only area where operators must think more critically about what products they use in SCVMs, but it is the most important category since it's the area that allows an operator to distinguish himself or herself from the competition, and at the same time become a meal destination.

Have you seen what drug stores are doing with fresh food lately? I'm as picky as anyone when it comes

to fresh food, and what I see at my local CVS store blows my mind. *Supermarket News* recently reported that drug stores are growing food sales faster than supermarkets.

Some vending operators have commented that the SCVM allows them to get back into the food business since the demise of the food machine began several years ago with the ebbing of big manufacturing accounts.

The operator must solicit food requests from the consumers. If an operator does not have a commissary, he should seek a local foodservice provider.

If fresh food sales are less than 30 percent of the units and dollars, you may be in jeopardy of losing the account to a competitor.

Pastry also requires a new approach. Operators should look for a bakery to provide pastry and baked goods. Instead of just a wrapped

IF operators want to be professional merchandisers, they must make product selections based on what customers want.

muffin, how about a muffin with a pad of butter and jelly and plastic knife wrapped in a paper plate? Cupcakes are also a growing product line, such as seasonal cupcakes for Halloween, Christmas and St. Valentine's Day.

CANDY AND SNACKS: MORE VARIETY

Snack and candy products also present opportunities. An operator should meet with their snack and candy manufacturers to determine what additional single-serve products such as premium size products are available. Diverse single-serve products such as those sold in convenience stores will be critical to the success of the kiosk locations. Higher prices mean higher profits.

COLD DRINKS: MORE VARIETY

Cold beverages constitute another 30 percent to 35 percent of unit and dollar kiosk sales. An operator must provide a full range of beverages, not limited as in the case of many vending sites which rely on bottler equipment. Moreover, research shows that consumers are interested in purchasing non-carbonated and specialty beverages at higher price points and greater profitability, instead of the standard carbonated beverages.

Another important consideration: is it time to consider fountain beverage service at these locations? Those of you who have paid attention know there are some exciting

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fountain products that should be able to integrate with a kiosk.

Milk and ice cream are another area that demand attention. In every geographic area, there are well known local dairies that provide milk and ice cream.

COFFEE: 25 TO 40 PERCENT OF TOTAL

Finally, the SCVM system must track all OCS consumption or sales. OCS consumption/sales at a kiosk location can be in the range of 25 percent to 40 percent of total kiosk sales.

SCVM operators must integrate their OCS brewer with the kiosk software. If coffee is provided free to the employees by the location, the kiosk system should be able to track consumption.

By tracking coffee consumption, the operator can send a quarterly email showing the value each employee receives from the location from free coffee. Beyond free coffee, the operator can also place units like the Tassimo that can offer premium coffee which the consumer can elect to pay for.

More importantly, if the consumer pays for the coffee, the kiosk should integrate the sales from the coffee equipment to the kiosk application so payment can be made using a UPC label instead of by pushing icons on the video touch screen. This has been a problem in some instances, but SCVM system providers have addressed it.

SOURCING BRINGS CHALLENGES

By now, it is clear that product selection and sourcing becomes a major part of success with SCVMs. This can be viewed as a negative, a positive, or both. I view it as a positive since it allows the operator to seek the best possible values to provide the best possible service.

Rebates are an issue. There are many great products out there that

What do we call these markets?

Automatic Merchandiser recently conducted an informal poll of self checkout market operators on what generic term best describes the markets. Operators were asked to select from the following terms: self checkout market, self checkout vending market, micro market, unattended retail, unattended market, unattended retail market, quick scan market, quick scan vending market, and "other."

The poll found a wide disparity among the terms operators prefer.

Allen Weintraub prefers the term "self checkout vending market" because the self checkout system in a vending location has no on-site personnel, as is often the case in other retail sites with self checkout.

may or may not qualify for manufacturer rebates.

Operators need to consider rebates, but I am in the camp that believes vending operators never should base their buying decisions on rebates. If operators want to

be professional merchandisers, they must make product selections based on what consumers want.

On the positive side, some of the purchasing sources out there, such as convenience store product

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distributors, bring new merchandising expertise to the table.

At grocery stores, 65 percent of U.S. consumers consider a self checkout kiosk important and a stunning 80 percent of consumers 18 to 24 years old view all technology as an important factor in their shopping experience.

Right now, grocery stores are doing more than any other retail channel to enhance self checkout's capabilities, and it's important for vending operators to know what they are doing. There is nothing that supermarkets are doing with self checkout that vending operators won't be able to do. And they may even be able to do it better.

Grocery stores are concentrating on promotions to encourage consumers to increase their purchases. One approach to this "buy more



Steve Foley, president of Foley Food & Vending Co., based in Norwood, Mass., has been able to market many popular, high priced products in self checkout markets.

strategy" is the promotion of "build-a-meal" – arranging a chicken breast, bagged salad, beverage and dessert for a \$10 price.

The SCVM operator should follow the example of the grocery stores' "build-a-meal" and combine fresh food, a snack, beverage, and dessert to increase the consumer transaction dollar.

The kiosk system the operator selects should have the database for the operator to track the consumer/dollar/transaction and to develop loyalty programs to achieve a minimum \$5 transaction level.

What vending operators are learning is they cannot run the SCVMs the

same way they operate their vending machines.

In providing SCVMs to your locations, you should consider selecting a kiosk system you can work with to provide your consumers with a new experience. You can check on YouTube and observe the various kiosk systems in action.

To make the SCVMs work as a "restaurant," not a vending machine, requires addressing the issues raised in this article. ◀

For more information, contact:

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Untapped revenue

Midwest independent grabs small locations with thriving honor box business. Low overhead

By Emily Reformat, Managing Editor

How to serve smaller locations has always been a challenge for vending operators. The answer, according to one operator, is an old one – honor boxes. Mark Legler, owner of V.E.N. Enterprises, Remington, Ind., has a thriving vending business, half of which consists of honor boxes.

No maintenance, easy servicing and minimal upfront cost compared to vending make up for the lower revenues from honor boxes, according to Legler. He has some vending accounts, but only because certain locations have multiple shifts with too many people to remain honorable. “I’d have all honor boxes if I could,” he said.

Getting new accounts is easy because of the small number of honor box competitors, but a quarter of Legler’s new business doesn’t

evolve into long-term contracts. The attrition rate means he is continuously adding new business.

‘IT SOUNDED LIKE FUN’

Before his vending company, Legler worked in the trucking industry. When the company he worked for moved to another town in the fall of 2000, Legler wanted to do something else, something close to home and different. During this time he ran into Harold Gooden who operated a 100-account honor box business in the Remington, Ind. area. Gooden wanted to sell his operation and retire.

“It sounded like a fun thing to do, better than trucking,” said Legler when he decided to buy the business in September. He wasn’t thinking long term, but he knew from the start the key to success was getting more locations.

As Legler started knocking on doors trying to add honor box accounts, he discovered a vending niche for locations around 20 to 75 employees. “The factories were covered, but the smaller places in vending were not being served,” said Legler.” He decided to add vending services for these locations.

Currently, Legler has 150 vending accounts and 2,500 honor box accounts and serves a 70- to 80-mile radius around Remington. The revenue is roughly equal between honor box and full-line vending accounts.

He started out renting a portion of a friend’s garage for his warehouse, but quickly outgrew the space and rented a block building



Jim and Ann Elliott, married for over 60 years, come into the V.E.N. warehouse to pack honor boxes three days a week. “I never met such dedicated workers,” said owner Mark Legler.



market: Honor boxes

costs and an unsaturated marketplace make honor boxes a strategic add-on.

with no heat or air conditioning. “They were some cold winters,” Legler remembered.

In 2008, he bought the current building from his brother in law and sectioned off a 2,500-square-foot space for his warehouse, adding climate control. He plans to rent out the rest of the 12,000-square-foot building.

RECESSION: VENDING TURNS TO HONOR BOXES

One trend Legler has noticed is during the current recession, companies have been reducing staff. Some of his small vending accounts became honor box accounts because of the shrinking employee numbers. And some honor box accounts closed completely. “We have to be adding accounts constantly because they’re closing,” he said.



Mark Legler bought an existing honor box business in September 2000 and renamed it V.E.N. Enterprises using the initials of his children's names..

Legler charges two prices in his honor boxes, \$.75 for snacks and a dollar for candy. “I had gone away from candy because it cost more,” said Legler, “but people argued and fussed.” He agreed to put candy back in, but at a higher price point. Customers didn’t complain. They pay the premium price. “I don’t think I could put more candy bars in than they would buy,” said Legler.

An interesting difference Legler sees between honor boxes

and vending machines is what people buy. Honor box patrons are more likely to buy a granola bar, for instance. The granola bar doesn’t sell as well in the vending machine. Other items Legler sells more via honor boxes than vending machines are the cracker and cheese combos as well as certain snacks like Combos and Snackwells. Legler doesn’t have a reason for this. He guessed that it might be what customers buy after the candy bars are gone.

Legler has a retired couple come in three days a week to pack the boxes. Before them, he hired various people from the town to pack boxes, including his own kids on Friday nights when he first bought the business.

CONTINUED ▶



V.E.N. custom builds its honor boxes

V.E.N. owns the dye for the specially designed honor boxes it uses, which includes a fold-out money holder. The original owner designed the box and Mark Legler, the current owner of V.E.N., gets them professionally cut every few years. He punches them out and constructs the boxes himself and adds the labels. If handled gently by the customers, the boxes can last five or six years.

Legler charges different prices for snack and candy based on wholesale costs. Customers pay the premium for candy without complaint.

While Legler accepts the term “honor box,” he will often refer to them as snack boxes with customers. He feels it has a better connotation. “Honor box implies that you may not pay me,” he said.



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HONOR BOX SERVICE IS FAST

It takes 15 seconds to service an honor box account since the driver goes in with a full box and brings back the old one regardless of what's left. This means Legler's route drivers can do 70 or 80 stops a day versus 12 or 15 vending stops.

Legler doesn't always separate the vending and honor box routes. Many times the route drivers will do both, whatever works best with the geography of the accounts. Most days Legler still runs a route himself.

Small location venders not a good option

Mark Legler has looked at small location vending machines, but doesn't think they'll work better than honor boxes. He believes the machines will bring inconveniences such as mechanical issues, coin acceptance only, and higher overall expenses.

SHRINKAGE FACTORED INTO COST

The only real drawback to honor boxes is shrinkage, which Legler estimates to be about 18 percent. He factors that into his costs and the price he charges.

"The key to getting them to pay is a relationship with a person at the location, either the boss or the people sitting in the breakroom," said Legler. If there's been some theft, he will go to the person, or people, and say "There's X amount of money missing, come on – help me out here." According to Legler, this approach only works with someone he knows. Otherwise, the person gets defensive, and often doesn't renew the honor box service.

"It's harder to steal from someone you know than just some invisible route guy," added Legler.

Legler has honor boxes in small rural areas as well as city locations and in many types of business. He does not see one place or type of location as having more or less shrinkage.

He does notice that a location with more men tends to do better. "They (men) eat more," he said.

ONE TYPE OF SERVICE PER LOCATION

There have been times a location has asked for both a vending machine and an honor box, but Legler finds this doesn't work well. "If they have money, they spend it in the vending machine. If they don't, they take it from the honor

CONTINUED ▶

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box,” he said. The only exception is soda machines, which tend to pair well with honor boxes.

While the vending machine side has higher revenue per account, the drawbacks are the expense and maintenance of the machines. Legler repairs the machines himself, often with the help of the manufacturer’s telephone helpline.

UNSATURATED MARKET

While Legler used to sell all the accounts himself, for the past five years he has hired an independent salesperson to help him grow his business, Harry Movsesian. Every few months, Movsesian takes prepacked boxes and heads to a city Legler has targeted for new business. He stops in and talks with the decision maker. If it’s

PROFILE: V.E.N. Enterprises

Headquarters: Remington, Ind.	1 independent sales person, 2 warehouse employees
Owner: Mark Legler	Product Lines: Frito-Lay, Mars, Kellogg
Number Of Employees: 2 full-time route drivers, 3 partners, independent operators in surrounding markets,	Main Equipment Line: Automatic Products
	Annual sales: Not revealed

a location V.E.N. already serves, Movsesian turns the interview into a service call. If not, he delivers an honor box and brings the business card back to Legler.

“I couldn’t have gotten to the size I am without Harry,” said Legler.

Of the new accounts, Legler estimates in the next two months, he’ll retain 75 percent. These accounts will likely stay with him a long time. “I still have most of the accounts I

bought from Harold,” he said.

The other accounts will either decide they don’t want to renew the honor box or will have shrinkage rates that are too high.

Legler doesn’t offer commissions to honor box locations and only 20 percent of his vending locations get commissions. He values both halves of his business, but he sees a real benefit to honor boxes. | ◀

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