

Automatic

MERCHANDISER

The Vending & Coffee Service Industry Resource

October 2012

SUCCESS STORY

Arizona's Solid Ace

How Ace Vending's Stooks, Van Hazel and Walton use technology and aggressive marketing.

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VendingMarketWatch.com

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How Intel will change vending machine displays, part 1.

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BLOG

'Wheel of Death' — Be Gone: Vending's new pledge for food machines.

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Individual subscriptions are available at the following rates: For one year, U.S. \$35 (\$65 for two-year subscription), Canada & Mexico \$50 (\$95 for two-year subscription); all other countries, payable in U.S. funds, drawn on U.S. Bank, \$75 per year (\$145 for two-year subscription). Single issues available (prepaid only) \$10.00 each. Canadian GST# 131910168.

For Change of Address or subscription information, click on subscribe at www.VendingMarketWatch.com, call toll-free 877-382-9187 or 847-559-7598 or email: circ.VendingMarketWatch@omeda.com

AUTOMATIC MERCHANDISER (USPS 017-280) (ISSN 1061-1797, print; ISSN 1948-5697, online) is published nine times per year: February, March, April, May, June, August, September, October and December by Cygnus Business Media. Periodicals postage paid at Fort Atkinson, WI and additional entry offices. **POSTMASTER:** Please send all change of address to **AUTOMATIC MERCHANDISER**, PO Box 3257, Northbrook, IL 60065-3257. Canada Post PM40612608. Return Undeliverable Canadian Addresses to: Automatic Merchandiser, PO Box 25542, London, ON N6C 6B2. Volume 54, Number 8

Printed in the U.S.A.



The World Wide Vending Press Association



ON THE COVER: SUCCESS STORY

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Ace Vending used technology and aggressive marketing to become state market leader. As the only big independent in its market, Ace Vending offers more services than the numerous small competitors and also provides a more personal touch than the national provider.

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Change is inevitable, commitment is not

While there's new faces at the helm, the mission of *Automatic Merchandiser*, and its online presence *VendingMarketWatch*, remains the same, to be a resource for the vending, office coffee service and micro market industry.

It is with excitement and pride that I introduce myself as the new editor of *Automatic Merchandiser* magazine. My name (hopefully) is not unfamiliar to our readers as I have been the managing editor of this publication for six years, covering everything from vending product trends



By Emily Refermat, Editor

ENTHUSIASM for the industry is shared by all vending innovators.

to increasing profitability. I've traveled around the country interviewing operators for profiles, learned a great deal and had many great experiences. This industry is a lot of fun to cover and I'm thrilled to take on this new role.

Passion leads to innovation

Elliot Maras has become an editor for the vehicle service industry. But before that, he taught me about the

vending industry, passing along the same industry passion that is shared by all vending visionaries, including those that show the rest of us what new technology can do. This month's success story, *Ace Vending* in Phoenix, Ariz., is a tale of three such men, who successfully used technology to grow

their business. On page 18, read about how they utilized DEX and eventually cashless, to create the most efficient routes, choose top selling products and install revenue-building micro markets.

While the industry is changing with technology, it still revolves around service, and delivering products. That's why we have a preview of the National Automatic Merchandising Association CoffeeTea & Water event on page 10, which promises educational sessions and exhibits for the office coffee service professional. And on page 12, we discuss the role pastries play in the vending mix for today's consumer environment.

Commitment to the industry

While change is inevitable, one thing remains constant here at *Automatic Merchandiser* and *VendingMarketWatch*, and that is our commitment to being your source for news, analysis and insight into this ever-changing world of vending, office coffee service and micro markets. From our well-respected print publication to our expanding array of online offerings, we will continue to be your go-to spot for industry news and information.

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Regulation saves a few calories per meal, but education is still the way to reduce obesity.



VendingMarketWatch reported on Sept. 13, 2012, that the New York City Board of Health approved Mayor Michael Bloomberg's proposal of a 16-ounce cap on sweetened bottle drinks and fountain beverages sold in their city's restaurants, delis, movie theaters, sports venues and street cars. The recently approved cap or "beverage ban" goes



By Monique Terrazas,
Publisher

WE need to be proactive not reactive about nutrition.

into effect on March 12, 2013. But wait! The definition gets even clearer! The "ban" applies to drinks that have more than 25 calories per 8 ounces and apparently does not include 100 percent juice drinks or beverages with more than 50 percent milk. I couldn't find anything that states if the type of milk plays into this at all, so let's just say milk.

Now, as everyone probably knows by now, this ban will not apply to vending. But my concern is...yet.

How it all starts

There are already many groups who are applauding New York City's ban, and encouraging more cities to follow suit.

What are they really trying to stop here? Obesity? Researchers from New York University School of Medicine found that on average, people who participated in their study consumed 200 calories from

sugar-sweetened beverages. Now, if this group were to switch from drinking a 32-ounce beverage to a 16-ounce beverage, that saved them 63 calories per meal. That's also assuming that the person changes absolutely nothing else in their diet and doesn't opt for two 16-ounce beverages to get around the ban. Again. 63 calories saved. This is hardly a dent in the recommended 2,000 calorie diet, in my opinion. If this was truly about trying to lower obesity, the most important element needs to be education, but it seems that in this case, that's been abandoned.

We also reported in VendingMarketWatch that McDonald's will post calories for all items on their menus both inside and in the drive-thru. Now this is an idea! Wow- Let the consumer make the decision instead of being "told" what they can or cannot do.

What this means for vending

It's not so much a matter of if these regulations are going to trickle their way down to us, but it's more a matter of when. How will you be prepared? How will you take the steps to be proactive instead of reactive? In the short amount of time that I've been back in the industry, I've seen new technologies that are available to assist you with posting calorie and nutritional information through the use of touchscreen technology. While you might not be in a position today to make the investment in this equipment, have you worked with your locations on ideas to post this information and to show that you and your company are also committed to the wellness and education of the people you serve? Working together to be proactive about this issue now will save you the hassle later when someone else steps in and attempts to save us 63 calories at a time. | ◀

Monique Terrazas, Publisher
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Consumer Reports finds arsenic in food, calls for federal standards

An article in the November issue of *Consumer Reports* recommends consumers limit the consumption of rice, and products made with rice, due to inorganic and organic arsenic levels found in popular foods. Based on their analysis of 200 samples of rice products from white rice to baby formula, they are asking the Food and Drug Administration (FDA) to set a limit on the level of arsenic acceptable in food, as no federal limit currently exists.



Thinkstock

Arsenic levels are highest in rice and rice products.

The FDA has responded by releasing preliminary data of its own on arsenic levels in the same number of samples, which is similar to the Consumer Report data, but which the FDA considers inconclusive. The FDA is planning a larger analysis of approximately 1,200 samples to examine the issue thoroughly. This data collection will be completed by the end of 2012 and then FDA will analyze the results to determine if it should issue additional recommendations.

Arsenic is found naturally in the environment in both organic and inorganic forms, which can be how it enters the food supply.

"We understand that consumers are concerned about this matter...(so) the FDA has prioritized analyzing arsenic levels in rice," said FDA Commissioner Margaret A. Hamburg, M.D. in a prepared statement. "Our advice right now is that consumers should continue to eat a balanced diet that includes a wide variety of grains..." she added.

Wachtor Electronics opens new location

► Wachtor Electronics, an Automated Merchandising Systems (AMS) authorized distributor in Kent, Wash., opened its new Southern California distribution facility on July 10. The new branch will enable them to better serve the west coast.



US Foods buys Glover Wholesale Co.

► US Foods has agreed to acquire Glover Wholesale Co. Glover is a leading food-service distributor based in Americus, Ga.

Tyler Mountain Water acquires McCune Coffee Co.

► Poca, W.Va.,-based Tyler Mountain Water Inc. has purchased the assets of South Charleston-based McCune Coffee Co., for an undisclosed sum, according to *Charleston Daily Mail News*. Tyler Mountain Water plans to fold the existing routes into its business and have the former president of McCune Coffee, Paul McCune, run the office coffee division.

Monogram purchases Hinsdale Farms

► Monogram Food Solutions, LLC, has acquired Hinsdale Farms of Bristol, Ind., one of the nation's largest manufacturers of corn dogs, with a special focus on retail private label customers and co-packing for other manufacturers. The acquisition of Hinsdale makes this the fourth processed-meat manufacturing plant owned by Monogram. The Hinsdale acquisition includes the company's manufacturing plant and 300 employees, all of whom were offered a position on the Monogram team.



Nestlé Prepared Foods decreases sodium

► Nestlé Prepared Foods Co. plans to decrease the sodium content in its products by another 10 percent from reductions made earlier this decade. Carrying through 2015, the STOUFFER'S®, LEAN CUISINE®, BUITONI®, HOT POCKETS® and LEAN POCKETS® brands will undergo gradual but steady recipe changes in order to bring down sodium levels without impacting taste.



ADM Vending & Coffee opens new headquarters

► ADM Vending & Coffee has moved to a new 13,000-square-foot location on Continental Blvd. in Merrimack, N.H., according to *The Nashua Telegraph*.

Correction

In the September issue, *Automatic Merchandiser* misspelled Tony Araujo's name in the OCS route driver of the year profile.

Haas Baking Co. closes

▶ Haas Baking Co., based in St. Louis, Mo., recently closed after 87 years in business as a supplier of frozen bakery to the vending and foodservice industry. The company had more than 50 employees, noted Joseph Haas, president and son of the founder. Haas said the business had become unsustainable due to rising costs and declining sales.

Hostess Brands attempts to exit bankruptcy

▶ Hostess Brands Inc. announced that employee members of the International Brotherhood of Teamsters (IBT) voted to ratify changes to their bargaining agreement that, if implemented throughout the company, will enable Hostess to continue operating and possibly emerge from Chapter 11. The company also announced that it intends to file a motion under U.S. Bankruptcy Code N.Y., to impose the same changes ratified by the IBT on employees represented by the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union (BCTGM) who voted to reject them.

D.E Master Blenders 1753 reports growth

▶ After the demerger from Sara Lee, newly listed pure-play tea and coffee business D.E Master Blenders 1753 has unveiled its first set of results showing sales growth of 9.5 percent on a like-for-like basis for fiscal year 2012.

Snyder's-Lance

Snyder's-Lance purchases Snack Factory and affiliates

▶ Snyder's-Lance, Inc. has entered into a definitive agreement to acquire Snack Factory, LLC and certain affiliates, for \$340 million in cash. Snyder's-Lance expects to close the transaction early in the fourth quarter. Snack Factory's leading product is Pretzel Crisps®.



Forest City Coffee acquires Sun Express Coffee

▶ Forest City Coffee, in Brooklyn Heights, Ohio, has acquired Sun Express Coffee Supply Corp. This latest move also brings the total number of staff at Forest City Coffee up to seven. Former Sun Express Coffee owner, Brian Meisenbach, and the warehouse manager will remain with the company after the acquisition. Meisenbach will assume the role of area coffee manager.

Bachman sells to Utz Quality Foods, becomes Savor Street

▶ Bachman Co. announced that it has sold its brands and certain assets to Utz Quality Foods Inc., Hanover, Pa., and will change its name to Savor Street Foods Inc. and retain its Hyde Park plant, according to *The Reading Eagle*.

People in the News

Flowers Foods hires Craig Parr

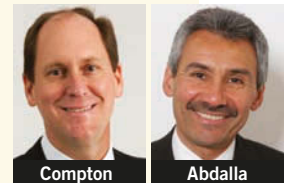
Flowers Foods has appointed Craig S. Parr to the newly created position of senior vice president of finance and chief risk officer.

Ira Alan Kronenberg passes away at 75

Long time National Automatic Merchandising Association (NAMA) member, vending industry leader, and co-founder of CompuVend Ira Alan Kronenberg passed away Sept. 10, 2012 at age 75.

PepsiCo president resigns

PepsiCo, Inc. president John Compton has departed to become CEO of Pilot Flying J Oil Corp., based in Knoxville, Tenn. Zein Abdalla, former Europe CEO of PepsiCo, has been appointed president.



Compton

Abdalla

Ira J. Lamel retires from Hain Celestial

The Hain Celestial Group, Inc. announced the planned retirement of Ira J. Lamel, executive vice president and chief financial officer.

Vending veteran Al Scherr passes away

Al Scherr, a long time veteran of the baking and vending supply industry, passed away Jun. 26, 2012. Scherr would have been 93 on July 19.

Microtronic tabs Steve Bryant

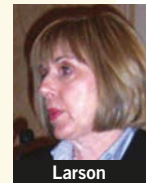
Microtronic US, LLC announced Steve Bryant has joined the firm as national sales manager.



Bryant

Larson wins Herbord award

Sandra T. Larson, senior director and counsel government affairs for the National Automatic Merchandising Association has received the William L. "Bill" Herbord Award from the Northwest Automatic Vendors Association.



Larson

Veteran marketer Jerry Cross, Sr.

Jerry E. Cross, Sr., who worked for Allen Wholesale and Imperial Cup Corp., recently passed away at age 72.

Southern Refreshment names Jeff Parks president

Southern Refreshment Services Inc., a Canteen franchise based in Tucker, Ga., named Jeff Parks president. Parks was formerly president of CL Swanson Corp.



CoffeeTea&Water show moves to New Orleans

Valuable training, trends and insight are highlight of fifth CTW event.

New Orleans, a city rich in coffee history and the second largest port of entry for green coffee, will be host to the upcoming National Automatic Merchandising Association's coffee, tea and water service event from Nov. 13 to 15, 2012.

This 3-day event, at the recently renovated New Orleans Hyatt Regency in New Orleans, La., is all inclusive. Registration covers the 15 educational sessions, presentations from industry leaders, networking opportunities, meals, receptions and attendance at the co-located International Bottled Water Association (IBWA) Business Conference.

Highlights of the CTW schedule include Tuesday's keynote address, sponsored by Mars Drinks, from Ric Rhinehart, executive director of Specialty Coffee Association of America (SCAA). Rhinehart, former president of a California-based coffee roaster, will discuss the key trends in specialty coffee.

In the evening, NAMA is hosting a special New Orleans-themed reception for its attendees after the regular welcome reception.

Coffee Research Results

Wednesday starts off with the results of a 2012 consumer research study done by Heart + Mind Strategies, a market research firm, followed by two sets of educational sessions.

During the closing ceremony Thursday, Mike Dabadie, president and managing partner of Heart + Mind Strategies, will review how the presidential election will impact small business. After the ceremony, attendees are invited to tour the New Orleans Port Authority and Dupuy green coffee and tea facility.

For more information about CTW, contact Roger Stewart at rstewart@namacoffeeservice.org or 616-299-6483 or visit <http://www.vending.org/education/coffeeevent.php>. Deadline for room registration is Oct. 18. | ◀

Sessions At A Glance

Tuesday, November 13

QCCP Coffee Fundamentals 8:30 a.m. - 2:30 p.m.
(not included in registration fee)

First Education Block 1 p.m. - 2:30 p.m.

The Art of The Introductory Call Amanda Puppo

Leveraging Refreshment Services Technology Michael Kasavana

What Your Truck Fleet Can Do For You Jeff Maloof

Opening General Session 2:45 p.m. - 5 p.m.

CTW 2012 Co-Chairpersons Tara Burnaman & Ken Shea

NAMA CEO/President Carla Balakgie

Key Trends in Specialty Coffee Ric Rhinehart - SCAA

2012 Coffee Legend Award presentation

CTW 2012 Co-Chairpersons Tara Burnaman & Ken Shea

Welcome Reception with IBWA 5:30 p.m. - 7 p.m.

NAMA-only Reception

Wednesday, November 14

Continental breakfast 7 a.m. - 8 a.m.

General Session 8 a.m. - 9:30 a.m.

CTW 2012 Co-Chairperson Ken Shea

NAMA CEO/President Carla Balakgie

2012 Coffee Research Heart+Mind Strategies

Second Education Block 9:45 a.m.- 11:30 a.m.

Tea Education 101 Peter Goggi

Leveraging Refreshment Services Technology Michael Kasavana

Five Ways to Enhance Your Company's Value Terry Herr

Creating Life Long Customers Jeb Blount

Buffet Lunch/Tabletops with IBWA 12 p.m. - 2:30 p.m.

Third Education Block 2:45 p.m.- 4:15 p.m.

What Your Truck Fleet Can Do For You Jeff Maloof

Sales Leadership for Operators Jeb Blount

The Art of the Introductory Call Amanda Puppo

Ideal Route Driver: Identifying, Hiring & Managing Jay Newman

Networking Reception and Tabletops with IBWA 4:30 - 7 p.m.

Thursday, November 15

Fourth Education Block 9:15 a.m.-10:30 a.m.

World Class Customer Service Jeb Blount

Increase Sales with Marketing Events

Service Tech Panel/Roundtable

Closing General Session 11 a.m. - 12:00 p.m.

NAMA Vice Chairman Pete Tullio

Election Impact on Small Business Mike Dabadie

CTW 2012 Co-Chairpersons Tara Burnaman & Ken Shea

Optional tour of the New Orleans Port Authority and Dupuy green coffee and tea facility 12 p.m. - 4:30 p.m.



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Pastries hold their own; Is vending missing out on a chance to upsell?

By Elliot Maras, Contributing Editor

Wellness and location downsizing challenge pastry sales, but Americans still have a sweet tooth. Some claim vending could do more to capitalize on it.

Wellness may be grabbing the headlines, but Americans still have a sweet tooth. One product segment that continues to hold its own for most vending operators, despite the twin challenges of a recession and the wellness movement, has been pastry.

Pastry sales flat in 2011

Pastry sales have taken their hit along with other vend product segments in recent years, but the *Automatic Merchandiser* State of the Vending Industry Report, published in June, reported baked goods sales were flat, making them one of the better performers in the candy/snack/confections segment.

Pastries have also been price point leaders. Candy and snack manufacturers introduced numerous large size packages in recent years to allow vending operators to offer higher prices. However, based on data provided by Management Science Associates, which tracks item level vending sales, the only large size product to win a spot in the top 20 selling items in 2011 was a pastry, Cloverhill Bakery's 4-ounce Big Texas Cinnamon Roll.

The Cloverhill item, selling at an average price of \$1.06 in 2011, was also the only top selling item in the candy/snack/confection segment with an average selling price over \$1.00, according to the State of the Vending Industry Report.

In examining baked goods sales in greater detail, 1-year sales performance varied by category, indicated in the chart on page 13. Baked goods represent the third largest candy/snack/confection segment after confections and snacks. Within the segment, the larger categories split about evenly among those that fared well and those that did not: sweet rolls, honey buns, and crème-filled snacks did well while cereal snacks, Danish, and donuts/gems fared poorly.

Given the challenged state of the vending industry, pastry sales are holding their own. This observation was shared by randomly selected operators, brokers, distributors and manufacturers interviewed by *Automatic Merchandiser*.

"There's still a great market for it," said Tim Garner, national sales manager for vending at Hostess Brands, which carries both fresh and frozen pastry. Garner admitted that the wellness movement has



Pastries are still a valuable vending product, whether fresh or frozen, especially regional favorites.

had an impact on the demand. He said wellness is a bigger factor on the coasts while the Midwest and Southeast have stronger pastry sales.

Southeast sees strong pastry sales

Pastry sales have been the strongest segment in the candy/snack/confections business for Buffalo Rock Co. in Birmingham, Ala., according to Dick Hanson, executive director of sales

and marketing. Historically, the pastry market is strong in the Southeast. Nevertheless, Hanson cannot explain why his pastry sales are up 7 percent this year, leading all other candy/snack segments. The company's overall vending sales have been flat.

Buffalo Rock mainly carries Cloverhill Bakery fresh products.

According to Hanson, the Cloverhill Honey Bun is the top selling pastry item for the company, priced between 90 cents and \$1.25.

Most of the accounts Buffalo Rock serves are industrial, which have been strong pastry accounts historically. Nevertheless, the company has been required to follow

nutrition rules in many accounts, some of which mandate 25 percent "good for you" offerings.

Randy Sikes, president of Vendors Supply, the Columbia, S.C.-based vend product distributor, said fresh pastry continues to dominate the vend pastry business in the Southeast. However, he said product quality has improved for frozen pastry, making it hard to tell if a product was shipped from the distributor to the operator in a frozen state.

Frozen-shipped pastries typically require operators to put an expiration date on after the product is thawed.

Sikes noted pastries, like other vend product segments, are getting new growth from micro markets. He said traditional vend products are being ordered for micro markets, along with larger packages, such as multi packs. "The mix of products is still in its infancy," Sikes said of micro markets.

Midwest: Demand varies

Sanese Services Inc. based in Columbus, Ohio has been a leader in promoting wellness, but customers still want pastry, noted Matt Warner, purchasing manager. The company carries mostly fresh pastry in its ambient snack machines.

Warner was among several operators who noted that ethnic and low-calorie offerings have not fared well in pastries. The company tried Hispanic pastries when some of the manufacturers offered it several years ago. He said the Hispanic products did well in certain accounts.

One problem with Hispanic pastries, noted Rusty Jackson, vice president of special markets for Cloverhill Bakery, is that Hispanics encompass a variety of ethnic groups who don't share the same tastes. "A Mexican pastry is not the same thing a Latino in Miami eats," he said.



BAKED GOOD SALES IN VENDING, 2011 VERSUS 2010

	% dollar change	% unit change
Total baked goods	0.2	-3.8
Bar cakes/brownies	22.1	14.6
Cereal snacks	-28.3	-34.9
Crème filled snack cakes	22.0	15.4
Danish	-31.5	-34.2
Donuts/gems	-8.4	-9.6
Honey buns	12.9	9.5
Misc. baked goods (Pop-Tarts)	-0.9	-3.2
Muffins	21.7	28
Pies	8.3	7.6
Sweet rolls	39.4	40.3
Unfilled snack cakes	62.9	46.7

Source: Management Science Associates ProVen data.

CONTINUED ▶

Pastries have been losing facings in recent years noted Jeff Smith, president, All Star Services Inc. in Port Huron, Mich. “There has been a lot of turmoil in the pastry business,” he said, referring to the financial issues that some pastry companies have experienced. The company primarily carries fresh pastries and uses frozen pastries as back up.

Smith said his company has better data to decide what items to carry in the machine, thanks to wireless reporting. “We’re more account specific as far as our customers’ desires,” he said.

Smith said “better for you” pastries did not sell well when he tired them. This does not mean he won’t try them in the future. “It rests with the consumer,” he said.

is only down by 0.6 percent. He cited location downsizing, competition, customers looking for healthy alternatives, and increasing product costs as reasons for the decline.

Regional favorites play a role

Some markets have regional pastry favorites. One of the more notable regional lines is Tastykake, a Philadelphia, Pa. favorite which is now carried by Flowers Foods Inc.

Tastykake Butterscotch Krimpets and Peanut Butter Kandy Kakes are the top selling pastries for One Source Office Refreshment Service Inc. in Pottstown, Pa., according to the owner, Bob Betz. Pastries remain a top seller for Betz. He said consumers see it as a good value because the vend pastries he carries

business in the last two years, noted Lou Leberti, owner. A fallout came three years ago when schools stopped carrying many traditional items. “Our industrial sites aren’t that wellness conscious yet,” he said. He does get requests for wellness products from location managers, but the sell-through isn’t there from the end user.

The restrictions in schools, hospitals and prisons has had some impact on what industrial locations are asking for, noted John Chavez, operations manager at Texas Refreshments, an 8-route operation in Midland, Texas. More industrial customers are requiring healthier options. But in locations with few restrictions, pastries remain top sellers, Chavez said.

Texas Refreshments mostly carries fresh pastry; frozen pastry is only used for back up, Chavez said. He said customers are accustomed to fresh pastry from the convenience stores and they usually prefer it to frozen pastry.

Fortunately, the oil fields that Chavez serves have not imposed a lot of restrictions, are adding jobs and the work sites take as many as three shipments of pastries per week. “We’ve seen a huge increase in it,” Chavez said. “These guys get out there in the oil fields and they’re looking for something (filling) to eat.”

Competition from bagged cookies

“The market is not what it was in the mid 1990s,” said Cloverhill’s Jackson. Besides the downsizing that has affected all vend product categories, pastry has faced competition from bagged cookies.

Concurring with this observation was Mike Knowlton, director of vending sales for Kellogg Away From Home. Kellogg’s Rice Krispies Treats and Pop-Tarts are shelf stable snacks that often find their way into traditional pastry facings.

In the last two years, Kellogg enlarged the Rice Krispies pack-

CONTINUED ▶



GIVEN *the challenged state of vending, pastry sales are holding their own.*

All Star Services has been aggressive with micro markets, but Smith has not found pastries to be great sellers in the markets, to his surprise. One reason is that fresh food has gained a much larger share of the micro market business than other items, compared to a vending bank.

Vending operators and suppliers in other regions have not experienced as much strength in pastries as the Southeast and parts of the Midwest.

Bud Burke, a sales rep for Gibbstown, N.J.-based Thayer Distribution, which serves the New York, New Jersey and Mid Atlantic market, said overall, pastry sales are down 6.1 percent this year. He said frozen, which represents the majority of the business, has fallen by 7.8 percent while fresh pastry

are competitively priced with what’s available in convenience stores. “The consumer sees that as value,” he said.

Betz did not have a lot of luck with Hispanic pastries when he offered them a few years ago, even in accounts with a lot of Hispanics.

Nor did he have luck with low calorie pastries five years ago. The wellness products mostly came in smaller portions and carried hefty price points in relation to package size. “The vending customers don’t seem to see value in that product,” Betz said. “They don’t see the value of that price point in a vending machine.”

Vend West in Coos Bay, Ore. serves a largely industrial customer base in the Northwest and has not seen much fallout because of well-

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age and shaped it more similar to a pastry package, Knowlton said. This helped drive sales even more.

Time for an upsell?

Some observers think the vending industry has an opportunity to improve pastry sales by adding better quality products at higher price points. Bill Skeens, owner of Prairie City Bakery, which supplies frozen pastry to foodservice channels, claims other retail channels have benefitted from better quality offerings. The company exhibited at vending trade shows more than a decade ago, but did not find the vending industry receptive to its product line because of its higher-than-average price points, but Skeens thinks operators might become more aggressive with higher priced pastries.

Skeens points to the growth of specialty retail bakeries in many parts of the country. He claims that specialty coffee stores, convenience stores, drug stores and other retailers have increased pastry sales by introducing higher quality, higher priced products.

Skeens further believes that the specialty coffee industry introducing better quality pastries in recent years has played a developmental role in building that market.

“I think that this is something that the vending industry is missing,” Skeens said. He also believes that micro markets are creating an opportunity for higher priced pastries.

While the pastry category has suffered somewhat from stricter



Kellogg's repackaged Rice Krispies Treats to look more like a pastry.

nutrition regulations and from the account downsizing, consumers still like pastries. Fortunately for the vending industry, a cadre of well-know product manufacturers continue to provide the quality and variety that consumers are looking for.

Because the vend pastry offers a good value to consumers, operators have been able to sell pastries at price points that delivers a reasonable profit margin.

In the meantime, product manufacturers continue to test new pastry products for vending, which keeps the segment interesting for both operators and their customers. | ◀

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Arizona's Solid Ace

By Elliot Maras, Contributing Editor

Ace Vending uses technology and aggressive marketing to become state market leader

Ace Vending in Tempe, Ariz., an 18-route operation servicing 3,000 machines from five operating facilities, offers a case study of a company that has become a market leader and continues to grow at a healthy clip. As the only big independent in its market, Ace Vending offers more services than the numerous small competitors, while also providing a more personal touch than the local national service provider.

One key to the company's success has been its pioneering use of technology, including cashless readers, DEX handhelds, pre-kitting, automated warehouse management and micro markets.

Ace Vending, to be sure, is not a typical company. Partners Wade Stooks, Kevin Van Hazel and Chuck Walton Jr., friends from junior high school, are all college educated and highly motivated Gen Xers who grew up cognizant of the way technology has changed business in general. When they launched Ace Vending in 1998, they came with no preconceptions about how the vending business should be run, and they organized their deliveries in a way that made it easy to incorporate DEX hand-

helds and eventually gain DEX-based efficiencies.

Beginning with Coca-Cola

After graduating from college, Stooks and Van Hazel landed jobs at the Phoenix, Ariz. Coke bottler, Stooks in sales and Van Hazel in finance. Walton became a Phoenix firefighter, a job he has continued to hold.

While working at Coke, Stooks and Van Hazel quickly learned that there was no established independent vending operator serving greater Phoenix. Believing they would be able to develop a vending business quickly using bottler-loaned machines, they, along with Walton, struck out on their own in 1998. Stooks and Van Hazel had saved enough money to cover their living expenses for six months.

Armed with a used delivery truck and working out of a garage, they began knocking on doors in Casa Grande, which

Joel England, coffee service manager, shows the Multi-Max K-Cup dispenser.

Partners Wade Stooks, left, Kevin Van Hazel and Chuck Walton have pioneered micro markets in Arizona.





Eric Bone, left, the dedicated micro market driver, inspects a micro market location with Mike Pearce, the company's Avanti manager.



Matt Pierce, left, route manager, and Tim Dicker, operations manager, inspect the machines at a location.



is about one hour equidistant from Phoenix to the north and Tucson to the South.

And while they didn't have vending experience, they knew the importance of having a professional appearance. They invested in uniforms and literature, and approached prospective accounts as if they were already an established company.

"We acted like a big company from the get go," Van Hazel said. "We looked like a professional vending company."

Stooks already had a successful track record in sales at Coke, and getting accounts did not prove too difficult. Many vending accounts were dissatisfied with the service they were getting from the existing providers.

Arizona: a unique vending market

Arizona has always been a unique vending market since there are not a lot of large industrial accounts that typically form the customer base of large vending operations. The market has long been dominated by small operators, many of which are retirees.

Once Stooks, Van Hazel and Walton got an account, they bought the equipment, installed it and began providing service.

Beverage machines were a "no brainer" since the bottlers provide them for free. But snack machines were a different story. Focusing on cost, they first tried used snack machines, which proved a mistake. "It was a nightmare," Van Hazel said, in reference to servicing used equipment. "We were naïve. We jumped in without looking."

They immediately began buying new equipment from the local Automatic Products, Ltd. distributor. The new equipment cost more money but saved many service calls.

After six months, sales were sufficient enough to justify a 1,500 square-foot warehouse for the young and growing company.

After one year, with 50 accounts, they hired a full-time driver.

Only one account, an auto parts dealer, wanted cold food and hot beverages. After installing and servicing the cold food and hot beverage machines, the partners decided it was not the business they wanted to be in. However, larger accounts still wanted food and hot beverages, so they looked for alternative ways to meet this demand.

Instead of cold food machines, they offered frozen food machines. Van Hazel said most customers who want food can be convinced to accept a frozen machine, which also offers ice cream.

Instead of hot beverage machines, they offered countertop coffee brewers, an offering that eventually grew into a separate OCS division.

Machine planograms early on

Being newcomers to vending, the partners did not follow established

CONTINUED ▶

“The office coffee business is really what has kept us profitable.”

industry practices, such as paying drivers based on commissions or having drivers pick products in the warehouse. Instead, they reasoned it made more sense to have a planogram for the driver to follow, and to have the truck loaded in the warehouse by the lower paid personnel.

“Why would I have a salaried guy spend part of his day loading his truck when I could have an hourly guy do it?” Van Hazel asked. “I want him out collecting money as much as possible every day.”

This system proved fortuitous when the partners sought vending management software.

Starting the business in 1998 had a key advantage; DEX was just coming on the scene with vending

deliveries to machine needs. “We were very lucky getting in (the business) when we did,” Van Hazel said.

Focus on route management

By 2002, the company had four routes and moved to a larger warehouse. The partners recognized that route management was key to profitability, so they began to research DEX handhelds.

Where many vending operators become interested in DEX handhelds as a way to improve cash accountability, Van Hazel saw it as a way to make the route planning system more efficient. The company was already using a planogram for its routes and was pre-kitting the loads for drivers.

“I think we made the right decision,” Van Hazel said of Streamware, which is now part of Crane Merchandising Systems. “Their product pretty much does what it always says it can do.”

In 2004, they began pre-kitting routes using DEX data.

In 2007, right before the recession hit, Ace Vending expanded into OCS. That was a fortuitous move, since the OCS business has weathered the recession better than vending. Recognizing the unique needs of OCS, they established a dedicated OCS truck.

“The office coffee business is really what has kept us profitable over the past five years,” Van Hazel said.

Technology pioneers

The company was also ahead of the curve in its market with cashless vending, which it introduced three years ago. The company began testing the USA Technologies Inc. system. “We thought it was finally ‘plug and play,’” Van Hazel said.

Customers weren’t asking for cashless at the time, and most were not aware that it was available. But Van Hazel wanted to be ahead of the demand before it hit, and in retrospect, he made a wise decision.

Ace Vending started with 10 cashless readers on a test basis in existing locations with a lot of public traffic and younger consumers. These included hotels and telemarket call centers. The results were immediately positive. Those first 10 machines experienced sales increases of 10 to 15 percent.

The USAT readers and telemetry system worked reliably. The system also interfaced seamlessly with the Streamware server.

They also tried some cashless readers in blue collar accounts, and the response was not as good. However, that has changed in the last year.

In three years, Ace Vending has installed card readers on half of



Kristin Walton, the warehouse system administrator, and Jeff Ferguson, the warehouse manager, oversee the automated warehouse system.

machines. In learning about DEX, Ace Vending was able to attack the market with state-of-the-art management software designed by Van Hazel, a college math major. By using DEX data, they were able to gather item-level sales data from the machines, which made product inventory easier to manage. It also enabled them to develop planograms that more accurately matched

DEX handhelds, in providing item-level tracking, gave Van Hazel a tool to make the planogram more accurate.

After researching industry specific software, Van Hazel felt Streamware offered the best system. Streamware was one of the first software suppliers to offer DEX-based management. In addition, it was the only company that responded to a request for an onsite visit.

its 3,000 machines. In addition to USAT, Ace Vending has used some Streamware readers.

The company has also been able to take advantage of the timely cash sales data provided on the USAT Website in addition to cashless data. More timely than DEX handheld data, the USAT data has improved pre-kitting. "Our kits automatically became a lot more accurate," Van Hazel said. "With credit card readers, you're getting a feed every night of what's happening."

Van Hazel estimates machines are 45 percent empty when serviced and the trucks return with only a few cases of product on them.

The company's routes generate \$650,000 per year on average, which is more than double the industry average, based on National Automatic Merchandising Association data.

Once all machines are reporting data to the Website, the company will be able to expand from pre-kitting to dynamic scheduling. Van Hazel thinks he'll be able to ensure the driver pulls at least \$100 (or any amount of his choosing) every time they go to the machine.

"The inclination (among operators in general) is to over service to prevent a service call," Van Hazel said. While this is a consideration, managing labor costs is a major concern in a labor intensive industry like vending.

When the company expanded into micro markets this past year, inventory management became even more important due to the higher number of stock keeping units in the warehouse.

After installing four micro markets, the company invested in LightSpeed, a pick-to-light warehouse

management system that accelerates the pre-kitting process by issuing light signals to direct the activities of pre-kit personnel. It has been especially beneficial for the company's micro market routes.

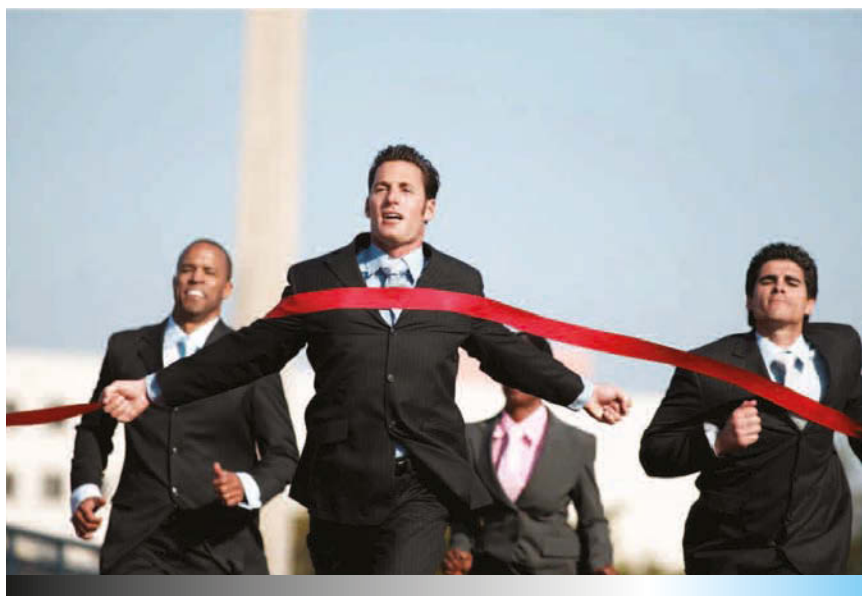
"That one purchase is the best (one) we ever made," Van Hazel said of LightSpeed. He claims he recouped the investment in less than a year.

At the present time, the micro markets are serviced by some of the vending routes. Van Hazel wants to have a dedicated micro market route.

Micro markets fuel growth

Van Hazel learned about micro markets at a Unified Services Group buying group meeting a year and a half ago. No one in Arizona was offering micro markets at the

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time to the best of his knowledge. Jim Brinton, president of Avanti Markets, gave a presentation on his system. Van Hazel went to Seattle, Wash. to visit Avanti Markets and learn more about them.

Brinton provided a list of products for Van Hazel to carry in the micro market. One type of product he was not used to carrying was fresh sandwiches. Van Hazel was able to work out an arrangement with a commercial commissary.

Van Hazel placed his first micro market in an established vending location, replacing the vending bank with the micro market, on a test basis. The micro market doubled the sales in a short period of time, and the sales have remained at the same level ever since.

Once he had one micro market set up, Van Hazel had a location he

could take other customers to see. In the past year and a half, he has installed 50 micro markets. "This is where it (the business in general) is at, in my opinion," he said. He seeks locations with 150 to 200 employees minimum for a micro market.

Encouraging value card payment

When introducing a new micro market to an account, Ace Vending provides "value cards" to each employee with \$2 preloaded. The "value card" contains a personal bar code by which the customer establishes a personal account with Avanti Markets which they can access over the Internet. The employee is also awarded extra value for loading \$20 on the value card, either with cash or a credit or debit card. "They save some money by keeping value on the card," Van Hazel said.

To date, half the micro market purchases are made with the value card and the rest with debit or credit cards. Avanti Market does not accept cash payments.

The purchase history for every location is analyzed by Avanti Markets. Operators can access reports on top selling items to offer.

One top selling item for Ace Vending has been cheese sticks. Van Hazel said he never sold this product in vending. The fresh food has also been an excellent seller.

The micro market also works well for employee wellness programs, Van Hazel said, since it allows more variety than vending.

Energy shots, which never did well in vending, have been very successful in the micro markets, Van Hazel said.

Van Hazel thinks giving the customer the ability to touch a

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product before they buy it makes a big difference.

From the operator's perspective, not being constrained to nickel increments, as in vending, has been a big help. "It improves the customer's experience," Van Hazel said.

Avanti Markets has offered some very successful promotions at the point of sale. A recent promotion allowed customers to win an iPad with five chip purchases. In another instance, customers got 25 cents off a soda when buying a sandwich and chips between 3 p.m. and 5 p.m.

For hot beverages, the micro market has a Keurig brewer where the customer can insert K Cups they buy from a MultiMax machine.

Ace Vending manages the Avanti Markets data over the Internet and the data interfaces with the Streamware VendMax data, allowing Ace Vending to manage inventory for both the machines and the markets without a lot of extra steps.

Employee theft has not been an issue with micro markets, Van Hazel said. The only problem is when cleaning crews don't realize the products there aren't free. This is usually solved through simple communication.

Multi-faceted marketing

One way Ace Vending has distinguished itself in the market has been a multi-faceted marketing program that includes the Internet, the media and business trade shows.

The partners realized they were technology pioneers with pre-kitting, cashless acceptance and micro markets. To communicate their uniqueness, they hired a professional Internet designer to upgrade their Website, acevending.net. The Website has a professionally produced YouTube video about pre-kitting that emphasizes product freshness, how handhelds



Joel England examines a DEX handheld.

ensure accurate deliveries, and how clean the warehouse is.

Another professionally produced YouTube video demonstrates Avanti Markets.

Ace Vending has found that vending technology offers a great way to win media exposure. In late 2008, the company was featured on national television when the History

Channel's "Modern Marvels" ran a special segment on vending technology. When the TV crew visited Crane Merchandising Systems to demonstrate how DEX handhelds work, Crane suggested the camera crew visit Ace Vending to see how a vending operator uses the handhelds.

The company has also advertised in a business newspaper, the Phoenix Business Journal. The newspaper did a feature article on the company when it introduced Avanti Markets in 2011.

Shortly after the Phoenix Business Journal ran its article, The Trivalley Dispatch, a daily newspaper in Casa Grande, Ariz., also ran a feature about the company.

Van Hazel said the media coverage has given the company more credibility in the community.

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Ace Vending has also found it worth the time and trouble to exhibit at business trade shows. They have experienced success exhibiting at a show for human relations managers as well as a more general business trade show.

In addition, the company has promoted itself on social media Websites, but has not determined how successful this has been.

Future direction: video touchscreens

While vending is currently suffering compared to micro markets and OCS, Van Hazel is optimistic about vending, thanks to the new technology on the horizon.

He thinks interactive touchscreens that display a variety of digital content at the point of sale and allow text messaging will bring new life to vending. He plans to

Operation Profile Ace Vending

Founded: 1998

Owners: Wade Stooks, Kevin Van Hazel and Chuck Walton Jr.

Headquarters: Tempe, Ariz.

Branch operations: Prescott, Ariz.; Yuma, Ariz., Kingman, Ariz.; Denver, Colo.

Number of routes: 18

Number of employees: 60

Hardware and software suppliers: Streamware, USA Technologies, LightSpeed, Avanti Markets

Main equipment suppliers: Crane Merchandising Systems, Keurig, Multi-Max

Annual Sales: \$12 million

introduce VendScreen, an Android-based, touchscreen that displays a variety of content and collects real-time point-of-sale data for analytics, plus connects wirelessly to the Internet to allow cashless payments and refunds, inventory management data and more.

VendScreen will also be helpful in meeting calorie disclosure rules, which Van Hazel thinks will be mandated in the near future.

“We want VendScreen,” Van Hazel said. “It’s going to make the machine smart and will handle this regulatory thing that’s coming up with nutritional communication.”

Long-term, Van Hazel hopes technology will help remove commissions from the picture. Location commissions have been a sore point with him from the very beginning. “With us bringing the technology in, the commission has to go,” he said. “(And) the more technology comes into play, people who don’t know what they’re doing will be out of the picture.”

As excited as he is about the future, Van Hazel thinks there are some big challenges for the vending industry to address. In addition to calorie disclosure, he is concerned about the new Americans With Disabilities Act law mandating new machines have controls at certain heights. “How is it going to affect what I have to do in the future?” he asks.

While the core business is struggling because of the recession, Van Hazel points to an upside: the availability of potential employees. “The economy being down has helped us find good people,” he said.

The Ace Vending story demonstrates the growth that forward thinking operators can achieve with new technology, even during a recession. | ◀

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Statement of Ownership, Management, and Circulation
(Requester Publications Only)

1. Publication Title Automatic Merchandiser	2. Publication Number 017-280	3. Filing Date September 12, 2012
4. Issue Frequency Feb, Mar, Apr, May, Jun, Aug, Sep, Oct, Dec	5. Number of Issues Published Annually 9	6. Annual Subscription Price Free to Qualified Subscribers
7. Complete Mailing Address of Known Office of Publication (Street, City, County, State, and Zip+4) Cygnus Business Media 1233 Janesville Ave PO Box 803 Fort Atkinson, WI 53538-0803		Contact Person Wendy Chady Telephone (920) 563-1750
8. Complete Mailing Address of Headquarters or General Business Office of Publisher Cygnus Business Media, 1233 Janesville Ave, PO Box 803, Fort Atkinson, WI 53538-0803		
9. Full Names and Complete Mailing Addresses of Publisher, Editor, and Managing Editor		
Publisher (Name and Complete Mailing Address) Monique Terrazas 1233 Janesville Avenue, PO Box 803 Fort Atkinson, WI 53538-0803		
Editor (Name and Complete Mailing Address) Emily Refermat 1233 Janesville Avenue, PO Box 803 Fort Atkinson, WI 53538-0803		
Managing Editor (Name and Complete Mailing Address)		
10. Owner (Do not leave blank. If the publication is owned by a corporation, give the name and address of the corporation immediately followed by the names and addresses of all stockholders owning or holding 1 percent or more of the total amount of stock. If not owned by a corporation, give the names and addresses of the individual owners. If owned by a partnership or other unincorporated firm, give its name and address as well as those of each individual owner. If the publication is published by a nonprofit organization, give its name and address.)		
Full Name Complete Mailing Address Cygnus Business Media 1233 Janesville Avenue, Fort Atkinson WI 53538		
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13. Publication Title Automatic Merchandiser	14. Issue Date for Circulation Data Below September 2012	
15. Extent and Nature of Circulation	Average No. Copies Each Issue During Preceding 12 Months	No. Copies of Single Issue Published Nearest to Filing Date
	14888	14877
a. Total No. Copies (net press run)	12138	12212
b. Legitimate Paid and/or Requested Distribution (by mail and outside the mail)	(1) PS Form 3541. (Include direct written request from recipient, telemarketing and internet requests from recipient, paid subscribers including nominal rate subscribers, employer requests, advertiser's proof copies, and exchange copies.)	0
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16. Publication of Statement of Ownership for a Requester Publication is required and will be printed in the October issue of this publication.		
17. Signature and Title of Editor, Publisher, Business Manager, or Owner Date September 12, 2012		

Julie Nachtigal, VP Audience Development
I certify that all information furnished on this form is true and complete. I understand that anyone who furnishes false or misleading information on this form or who omits material or information requested on the form may be subject to criminal sanctions (including fines and imprisonment) and/or civil sanctions (including civil penalties).

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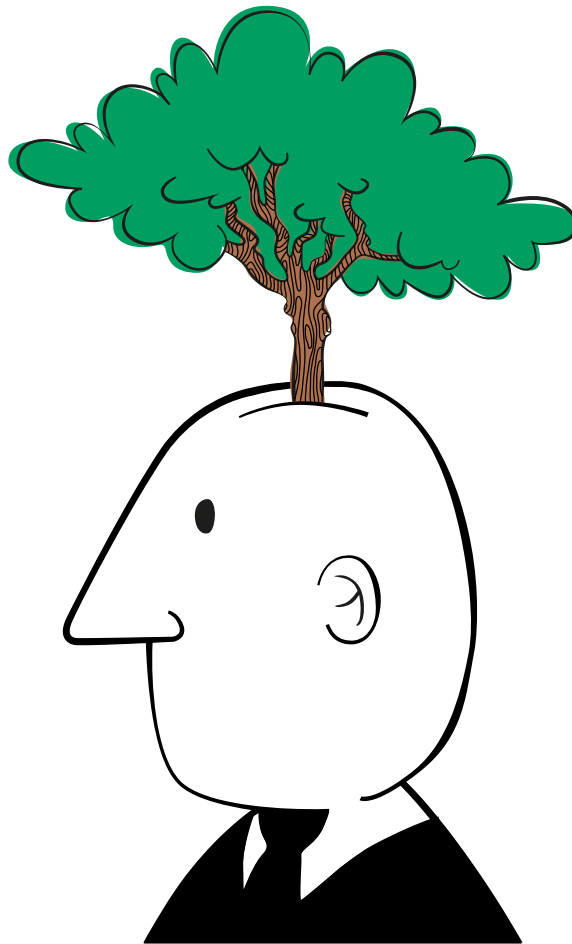
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QUARTERLY WINNER

Darren Adkins, **Webco Vending, Proctorville, Ohio**

A driver so good at his job, that he rivals vending management software.

DARREN ADKINS, route driver and route supervisor at Webco Vending in Proctorville, Ohio, raises the bar on service. For over 25 years, he's been servicing locations in the tri-state area of Ohio, West Virginia and Kentucky, and customers still praise his efforts.

"Darren is really good at getting feedback," said Tim Webb Sr., CFO of Webco Vending. Webb credits Adkins' success to both years of experience and the ability to size up an account. Plus, he works hard.

"At 5 o'clock in the morning, he opens the warehouse, and he just left (at 4 p.m.)," said Webb. "He's a great guy."

Pro Route Management

In 2012, Webco began using CompuVend vending management software to increase route efficiencies, profitability and for cash loss prevention. When it was added to Adkin's route it was obvious he didn't need the software.

"My predictions were correct that we could find very little room for improvement on his route," said Tim Webb, II, owner and CEO of Webco. "The experience and knowledge that he brings to the business every day is priceless."

Besides working as a route driver, or route salesman as it's called at Webco, Adkins performs the role of route supervisor, where he trains new drivers and manages others. Webb, II, nominated Adkins because he is a great employee who fills in when needed and performs his job to the highest caliber.

Adkins is also a foster parent and just adopted two young children. He hunts as well as owns and runs a seasonal greenhouse business.

“The experience and knowledge that he brings to the business every day is priceless.”

Top Scoring Driver

Route driver winners are chosen based on a numerical score from an online nomination form. The score takes into account years as a driver, number of machines serviced, miles traveled, accidents and citations, sick days, speed, thoroughness, likability, number of compliments, friendliness, appearance, condition of truck, empty spirals and sales. Kraft Vending & OCS, as well as *Automatic Merchandiser* and VendingMarketWatch, sponsor the winners.

In recognition of his efforts, Adkins wins \$250 and a chance at the 2012 Vending Route Driver of the Year prize awarded in April of 2013 at the National Automatic Merchandising Association OneShow in Las Vegas. | ◀



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