

Automatic MERCHANTISER

The Vending & Coffee
Service Industry Resource

September 2012

**Single-cup
profitability:** K Cup
alternatives emerge,
raising questions
about future
profitability.
page 12



How

OPERATION PROFILE

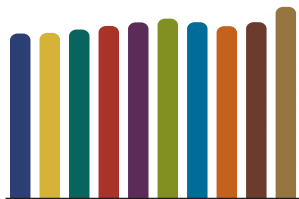
Adding coffee service drove
Pine Mountain Springs, a
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OCS Rebounded

STATE OF THE COFFEE SERVICE INDUSTRY

**Growth continues for the second
straight year.** Operators raise
prices for the second year in a row,
despite a recession. page 22



VendingMarketWatch.com

PODCAST AUDIO CONNECT

Florida vending operator explains how and why they 'got off the fence' with cashless vending.
www.vendingmarketwatch.com/10761784

HOT EDITOR'S BLOG

Nutrition rules hurt short term, but ultimately help improve vending's public image.
www.vendingmarketwatch.com/10759810

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1.800.233.7125 x25696 (Hanover)
1.888.722.1163 x18313 (Charlotte)
www.snyderslance.com

*Lance Sandwich Crackers are #1 mainstream brand in Total U.S. XAOC (ACNielsen 52 w/e 5/12/12). Snyder's of Hanover Pretzels are #1 brand in Total U.S. XAOC (ACNielsen 52 w/e 5/12/12)



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VENDINGMARKETWATCH

▶ **HOT: Editor's blog: Vending and millennials, a unique fit.**
www.VendingMarketWatch.com/10757202

Vending Technology
WATCH

▶ **PODCAST: MEI's Chuck Reed explains how bill recyclers increase vending sales and profits.**
www.VendingMarketWatch.com/10735283



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Goodbye, and a message for a better tomorrow

By Elliot Maras, Editor



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In the two decades I have edited *Automatic Merchandiser*, this has been the most difficult column I have written because it is my last. I have accepted another position at Cygnus Business Media, the parent company of *Automatic Merchandiser* and Vending-Marketwatch.

I leave the editor's role to my highly capable managing editor, Emily Refermat. Emily has assumed much of the

ers and as such, it assumes far more importance to product manufacturers who want to reach consumers at all times of the day in a variety of settings – at work, leisure, or school, while performing routine shopping, or attending to specific tasks like getting their cars serviced.

The industry is still in the early stages of the biggest transformation it will make in our lifetimes. It's an exciting period, especially for the younger mem-

Micro markets, meanwhile, are playing a growing support role in two ways. First, they bring a new marketing tool to the vending industry that allows a more dynamic level of service. Secondly, because of the marketing programs they offer, they are making vending operators aware of loyalty rewards and promotional programs they can use in vending machines. Many of the young and young-thinking operators have seized these tools and are in the forefront of change.

THERE is no place for business practices that aren't focused on improving the consumer's buying experience.

hands-on editorial management in the six years she has worked with our staff. She has taken on increasing responsibility in selecting and editing news stories for Vending-MarketWatch.

Emily has also assumed more responsibility for writing feature articles for *Automatic Merchandiser* as her industry relationships have grown. Emily, being a Gen Y-er, brings a valuable perspective to automatic merchandising as it enters an exciting era.

What was once a very backward industry is becoming a highly-dynamic and leading-edge retail channel. Vending is becoming a more interactive buying experience for consum-

bers who will reap the greatest benefits from the new capabilities borne of technology.

Technology's promise

In the past year, technology leaders such as Intel Corp., Cisco Systems and Google have invested serious money in learning about automatic merchandising and the unique ways vending machines can interact with the public.

These forward-thinking companies have formed relationships with some of vending industry's established product, equipment and technology providers and in some cases, they have initiated joint projects to expedite automatic merchandising's capabilities.

Yesterday is gone forever

For those of you who aren't on board with the new paradigm, time is not on your side. There is no place for business practices that aren't focused on improving the consumer's buying experience. Those days are gone.

The investment needed to bring new capabilities to market leaves no room for location commissions. Big public access locations will be the last major holdout for commissions, but in time, even these customers will recognize that dynamic, interactive communication at the point of sale delivers greater benefits than traditional dollar and cents commissions.

The last two decades have been exciting, and I have enjoyed every minute. I regret losing my front row seat to the greater days that are unfolding for the rest of you. | ◀

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Keep calm, carry on . . .

By Monique Terrazas, Publisher



Changing of the guard; a natural evolution for all companies

I saw this on a poster hanging outside one of the offices in our building and it makes me laugh every time I walk past it. So, you've read Elliot Maras' column by now. Here is what I can pass along at this point: Keep calm and carry on.

Friend and colleague moves on

I've had the pleasure of knowing Elliot since I joined the company in 1999 and even working with him for a couple of years on *Automatic Merchandiser*. As most of you already know from your interactions with him, he's a great guy and definitely a thought leader in the vending industry. However, he has a great opportunity ahead of him and will still be working for our parent company, Cygnus Business Media. Please join me in wishing him well on his new challenge.

As mentioned, Emily Refermat has accepted the position of editor of *Automatic Merchandiser* and

VendingMarketWatch.com. Many of you may remember meeting her either in person at a show or over the phone as she's been writing for the industry under Elliot's guidance for over six years now.

I'd also like to introduce a new member to the *Automatic Merchandiser* team, Wade Vonasek, who joins as the associate editor and digital projects manager. He comes to us from another publication within our parent company that serves the vehicle repair industry. Wade will be handling most of the product and press release news that you submit in the future. While he's new to the vending industry, he's very excited to learn as much as he can in the coming months.

Every business has experienced a "change of guard" so to speak, and the publishing world is no exception. In fact, having an editor writing for the same magazine for over 20 years is something pretty amazing. So where does that leave us?

Well, while the names on the masthead may be different, the mission of the magazine is still the same. *Automatic Merchandiser* and VendingMarketWatch.com is dedicated to facilitating the success and growth of the vending/OCS industry by taking a stand on industry issues and by providing actionable insight, future trending and "hands-on" information regarding products, technology and operations management.

We're also hard at work coming up with new ways to provide you with the content you've come to expect. Look for some new updates to the Website, multi-media as well as our social media pages in the next couple of months.

This month, a look at OCS

This month's issue provides one of the most valuable pieces of trending we offer, the annual OCS industry report. The information for this report was gained from a survey conducted by the editors of *Automatic Merchandiser* as well as chatting with both manufacturers and operators.

With this being the most positive OCS industry report in recent years, I think you'll be interested in where there have been successes as well as areas for improvement for the last half of 2012 and provide you with insight as you plan for 2013. If you have any thoughts or comments on the report, please give me a call or email me. I'd be interested in hearing from you. ◀

Please send your comments regarding this or any article in *Automatic Merchandiser* to Monique.Terrazas@VendingMarketWatch.com. Or visit www.VendingMarketWatch.com.

CALENDAR OF EVENTS

OCT. 4 - 6

Atlantic Coast Exposition

Embassy Suites Hotel at Kingston Plantation
Myrtle Beach, S.C.
Phone: 919-387-1221; Fax: 919-249-1394
www.atlanticcoastexpo.com

OCT. 10

New York State Vending Association Herb Luckower Golf Outing and Membership Event

Westchester Hills Golf Club
White Plains, N.Y.
Phone: 571-346-1901

OCT. 10 - 12

National Coffee Association Summit

Hyatt Regency Philadelphia
Philadelphia, Pa.
www.ncausa.org

OCT. 21 - 25

National Automatic Merchandising Association Executive Development Program

Michigan State University
East Lansing, Mich.
Phone: 312-346-0370
www.vending.org

NOV. 13 - 15

National Automatic Merchandising Association CoffeeTea&Water Event

New Orleans Hyatt Regency
New Orleans, La.
Phone: 312-346-0370
www.vending.org



CoffeeTea&Water

2012

EDUCATION • SHOWCASE • NETWORKING

NOVEMBER 13 - 15 • HYATT REGENCY • NEW ORLEANS

HELPING YOU BUILD YOUR BUSINESS TODAY FOR A MORE PROFITABLE TOMORROW!

New Orleans, the 2012 host city for CT&W is the premier coffee-handling port with over 14 warehouses, 5.5 million feet of space and six roasting facilities within a 20-mile radius. So it just makes sense that New Orleans would host the largest single education event dedicated to coffee, tea and water service operators. The rich coffee history of this exciting city is the perfect backdrop for NAMA's 5th annual coffee, tea and water event. The newly renovated Hyatt Regency Hotel is just a short street car ride from the famous New Orleans French Quarter.

Event highlights include:

- Quality Coffee Certification – Coffee Fundamentals workshop (fee based)

- Tea Fundamentals session (certificate) NEW!
- Two networking receptions
- 3-hour sales training workshop
- Same dates and hotel as the International Bottled Water Association (IBWA)
- 150 tabletop suppliers including IBWA
- Keynote speakers

All inclusive
reservation package
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food, networking and fun

For specific details contact Roger Stewart
at rstewart@namacoffeeservice.org or
616.299.6483



Better Education...Better Brew...Better Bottom Line

NAMA names September National Coffee Service Month



Reinhart Foodservice acquires P.A. Menard

► Reinhart Foodservice Louisiana, LLC, has acquired certain assets of P.A. Menard, Inc. in New Orleans, La. P.A. Menard's operations will be integrated into Reinhart's distribution facility.

Ferrara Candy closes two sites after merger

► U.S. confectioners Farley's & Sathers and Ferrara Pan closed a manufacturing facility and a packaging and distribution plant following the two firms' merge to Ferrara Pan Candy Co.

Royal Cup purchases Coastal Coffee & Paper

► Royal Cup Coffee Co., based in Birmingham, Ala., acquired Coastal Coffee & Paper Supply LLC, a 1-route coffee service and paper supply operation based in Pensacola, Fla., from owner Chris Lunsford for an undisclosed sum. The accounts were folded into Royal Cup's existing facilities in Pensacola, Fla. and Mobile, Ala.



Snyder's-Lance acquires O'Byrne Distributing, Inc.

► Snyder's-Lance, Inc. has acquired substantially all assets of O'Byrne Distributing, Inc., a snack food distributor serving the Augusta, Ga. area.



The National Automatic Merchandising Association offers an online marketing toolkit for operators.

The National Automatic Merchandising Association (NAMA) announced the first National Coffee Service Month this September. Beginning Sept. 1, 2012 and taking place throughout the month, NAMA coffee, tea and water service operators will mark the milestone with special events at locations throughout the country.

"Our goal as a NAMA committee is to support our fellow coffee service operators. This year, we're debuting National Coffee Service Month to deliver a fun, caffeinated point-in-time to jumpstart marketing activities designed to build awareness that providing coffee service is a measurable employee benefit that maximizes productivity," said Howard Chapman, NAMA coffee committee chairman and a member of the NAMA board of directors in a prepared statement.

NAMA members can download the "National Coffee Service Month Toolkit" from the member-only section of www.vending.org, which includes ideas and suggestions to implement a national coffee month marketing campaign.

NAMA is building upon National Coffee Week and National Coffee Day, which also fall in September.

Land O'Lakes buys Kozy Shack

► Land O'Lakes, Inc. signed an agreement to acquire Kozy Shack Enterprises, Inc., a market leader in the chilled dairy desserts category in North America.



Campbell acquires Bolthouse Farms

► Campbell Soup Co. agreed to acquire Bolthouse Farms, a vertically integrated food and beverage company, for \$1.55 billion in cash.

S & D Coffee to expand, change name

► S & D Coffee plans to build a \$35 million expansion in Concord, N.C. and will change its name to S & D Coffee and Tea to reflect its iced tea offerings.

Wisconsin operator charged with embezzling funds

► The U.S. Department of Justice has charged David R. Biggerstaff, former president of Premier Vending, Inc., also known as Owen Vending, Inc., in Janesville,

Wis. for embezzling from an employee pension benefit plan for two years.

Canteen of Southern Nevada purchases Pacific Vending

► Canteen of Southern Nevada, based in Las Vegas, recently acquired the assets of Pacific Vending, also based in Las Vegas, for an undisclosed sum, according to Rocky Brandonisio, owner of Canteen of Southern Nevada. Marc Rosset, principal of Chicago-based Professional Vending Consultants, facilitated the transaction.

Starbucks acquires Bay Bread

▶ **Starbucks Coffee Co.** acquired San Francisco, Calif.-based **Bay Bread, LLC** and its **La Boulange®**; bakery brand, and has hired renowned French baker Pascal Rigo.



Private equity firm buys Peet's Coffee & Tea, pending lawsuit

▶ **Peet's Coffee & Tea, Inc.** and **Joh. A. Benckiser (JAB)** entered into an agreement whereby JAB will acquire Peet's for \$73.50 per share in cash, or a total of approximately \$1 billion. Peet's will remain privately owned and operated by the current employees. An investor has filed a lawsuit in state court to halt the takeover.

Louis Dreyfus Commodities acquires Imperial Sugar

▶ A subsidiary of **Louis Dreyfus Commodities LLC** acquired **Imperial Sugar Co.** through a cash tender offer and second step merger at \$6.35 per share.

AVI purchases Serex Services Inc. in Ohio

▶ **AVI Foodsystems Inc.** acquired the assets of Youngstown, Ohio-based **Serex Services Inc.** from owner Len Morris for an undisclosed sum. Marc Rosset, **Professional Vending Consultants Inc.**, managed the transaction. All 22 employees will remain with AVI.



Former Texas Dr Pepper bottler sells its own soft drinks

▶ **Dublin Bottling Works**, the Dublin, Texas bottler known as Dublin Dr Pepper before agreeing to sell to **Dr Pepper Snapple Group** to settle a licensing lawsuit, recently began bottling and selling its own line of fountain drinks.

Canteen acquires Carolina Quality Snacks

▶ **Canteen Vending Services Inc.** has acquired **Carolina Quality Snacks**, a 4-route operation based in Dunn, N.C., from owner Hal Scott and folded it into an existing Canteen operation for an undisclosed sum, according to Steve Luccia, Canteen's chief financial officer. Marc Rosset, principal of Chicago-based **Professional Vending Consultants Inc.**, an intermediary and consultant to the vending and OCS industries, facilitated the transaction.



Coinstar seeks buyer, considers vending

▶ **Coinstar**, best known for its self-service movie rental kiosks, held talks about a potential sale while also considering a vending machine expansion, reported *The New York Times*. The vending expansion ranged from coffee to photo printing machines.

People in the News

Foley receives Harry Wishart award

Steve Foley, president of **Foley Food & Vending Inc.** in Norwood, Mass. received the Harry Wishart award from the New England Vending Associations.



Foley

Hillshire taps Schwan's Reid as CCO

Sean Reid has left **Schwan Food Co.** to become chief customer officer of the **Hillshire Brands Co.**

Suncoast Coffee hires IT manager

Marc Molella joined **Suncoast Coffee Service and Vending** in Tampa, Fla. as IT manager.



Molella

Reetz and Goettsch retire from Hormel Foods Corp.

Hormel Foods Corp. announced the retirements of Douglas R. Reetz, vice president and senior vice president of consumer products sales, and Dennis B. Goettsch, vice president of marketing, foodservice.

Industry loses Steve Trapani

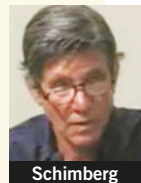
Steve Trapani, co-founder of **U.S. Coffee**, a coffee service operation in Hicksville, N.Y., recently passed away.

Mark Dieffenbach chairs NAMA board

The National Automatic Merchandising Association (**NAMA**) announced Mark Dieffenbach, director of specialty channels of **The Hershey Co.**, began his 1-year term as chairman of the NAMA board.

GCE's Henry Schimberg passes away

Henry Schimberg, retired CEO of **Coca-Cola Enterprises Inc.** based in Atlanta, Ga., passed away at age 79.



Schimberg

Debra Crew leads PepsiCo Americas Beverages as new president

PepsiCo, Inc. named Debra Crew president of **PepsiCo Americas Beverages**, which includes its **Gatorade** and **Tropicana** business in North America.

Aramark names Steve Reynolds vice president, general counsel and secretary

Aramark appointed Steve Reynolds as executive vice president, general counsel and secretary.

Ledbetters sell RE Services Inc. to Five Star Food, Southern Refreshment, Cardinal, Canteen and HIG

Brothers Stan and Steve Ledbetter, owners of RE Services Inc., based in LaFayette, Ga., have sold their vending, OCS, foodservice operation to Canteen franchise companies in Georgia and Virginia and to HIG Capital. All 600 RE Services employees have been provided jobs by the acquiring companies.

Five Star Food Services Inc., based in Chattanooga, Tenn., acquired RE Services' Ringgold, Ga. branch, the LaFayette, Ga. commissary and the Macon, Ga. branch. Southern Refreshment Services Inc., based in Tucker, Ga., acquired the Athens, Ga. branch. The Chesapeake, Va. division was sold to Canteen Vending

Services Inc. and to Cardinal Services Inc., a Hampton Roads, Va.-based Canteen franchisee.



HIG Capital, which acquired Canteen's correctional business this year, acquired RE Services' equity interest in the county jail commissary business based in Stockbridge, Ga.



Vistar salesman wins smart car

▶ **Promotion In Motion Companies Inc.** presented a branded smart car to an Kansas City, Mo. **Vistar** account executive Tim VanGels at the recent Vistar Corp. annual meeting in Chicago, Ill.



Sara Lee names new meat company Hillshire Brands

▶ **Sara Lee Corp.** chose **Hillshire Brands Co.** as the new name for its North American business after it split into two independent companies, **D.E. Master Blenders** and **Hillshire Brands**.

AVT partners to provide cloud-based vending solutions

▶ **AVT, Inc.** formed **Automated Retail Control (ARC)**, which partnered with **Lunarpages Internet Solutions** to provide cloud-based solutions to the vending and automated retailing industry. Users can remotely manage machines or automated retailing systems and use AVT's licensed wireless system.



ConAgra purchases Bertolli® and P.F. Chang® frozen meals

▶ **ConAgra Foods, Inc.** acquired the Bertolli and P.F. Chang home menu frozen meals businesses from **Unilever PLC** for a total cash consideration of \$265 million.

Pennsylvania downgrades vending repair program

▶ Pennsylvania has

removed the vending repair program from "high priority" status for technical education, which will result in less funding for the program at the **Randolph Skills Center** in Philadelphia, Pa. **The School District of Philadelphia** is appealing this decision, but has asked industry members to contact the Office of Career & Technical Education in Philadelphia and urge them to reconsider. For information, contact Bud Burke at bud@thayerdist.com.



J & J buys Kim & Scott's Gourmet Pretzels

▶ **J & J Snack Foods Corp.** acquired the assets of **Kim & Scott's Gourmet Pretzels**, a Chicago, Ill.-based soft pretzel manufacturer.

People in the News

G & J Names new sales team members

G & J Marketing and Sales named **Jim Bombeck** to the sales team representing Ohio and sections of West Virginia and Pennsylvania. **John Biebighauser** joined the Minnesota, Western Wisconsin, Iowa, and North Dakota and South Dakota sales team.



Bombeck



Biebighauser

Gardetto Joins Burdette Beckmann

Gary Gardetto has left **Rasmussen & Associates Inc.**, a Minneapolis, Minn.-based product brokerage, to join **Hollywood, Fla.-based Burdette Beckmann Inc.** as Wisconsin sales representative.

Atlantic Coast Expo returns to Embassy Suites Hotel for second fall event in Myrtle Beach, S.C.

The October event returns, featuring education, networking, and an exciting keynote speaker.



The Embassy Suites Hotel offers attendees beach access in Myrtle Beach, S.C.

Vending and coffee service operators and suppliers will return to Embassy Suites Hotel at Kingston Plantation in Myrtle Beach, S.C. this year following a successful fall Atlantic Coast Exposition (ACE) event last year. The 2012 ACE will showcase nearly 150 companies and brokers that work to support vending and OCS businesses Friday and Saturday, Oct. 4 to 6, 2012 at the hotel's Kensington Ballroom. Hundreds of participants are expected for this event in its 58th year.

State associations to meet

On Thursday, meetings will be held by the three state vending associations that partner in ACE: North Carolina Vending Association, South Carolina Vending Association, and Virginia Automatic Merchandising Association.

ACE participants can expect quality education, a 6-hour “training camp,” networking, and a busy show floor. The educational sessions on Friday promise to offer timely industry information on technology (“The New Game Face of Vending”), compliance (“Avoid Penalties – Know the Rules”), hardware and software (“Train-

ing Camp for Technician Development”) and expert panels (“Vending Calls an Audible – Micro Markets”). The sessions will be geared toward various operational levels. Other events that offer networking opportunities include a big “ACE Halftime Show” with food, drinks and entertainment. Saturday features an “ACE Tailgate Corn Hole Beach Party.”

Keynoter brings unique background

Gregory Blake, the “chief encouragement officer” for PepWorks International, will deliver the keynote speech. Blake calls himself an “encouragement specialist” to organizations, corporations and non-profits, bringing 30 years of experience with management teams from diverse organizations in all

walks of life. He will speak at the ACE MVP Awards Breakfast on Saturday, Oct. 6.

Blake’s presentation is titled, “Service Champions: Victorious Vendors, Stellar Suppliers,” and is designed to educate, entertain, engage, empower and energize attendees. Blake is practical in his approach and the tools, tips and techniques shared will be applicable in the workplace.

Registration is open to anyone in the vending, office coffee or food service business, including those involved in contract food service in schools, colleges and hospitals. Additional information is available from the ACE office:

Website: www.atlanticcoastexpo.com;
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Single-cup profitability: Which way is it headed?



By Elliot Maras, Editor

K Cup pack alternatives emerge, raising questions about pricing and profitability.

This year's *Automatic Merchandiser* State of the Coffee Service Industry Report presents one of the strongest forecasts for the OCS industry ever, with one caveat. As noted on page 23, the average price for single-serve coffee posted a decline from the prior year, indicating profitability has fallen for the fastest growing OCS product.

The culprit, most veteran OCS operators will agree, is the Green Mountain Coffee Roasters Inc. (GMCR) K Cup pack, the undisputed market leader of the single-serve segment. If OCS operators cannot sell the market leading products profitably, what does that say about the future of OCS?

The K Cup pack has built the demand for single-cup by being one of the first reliable OCS cartridge-based systems introduced and the first to establish a dominant presence in the homeowner market. As explained in the State of the Industry Report, the K Cup pack's presence in the homeowner market has helped drive the OCS market,

but at the same time it has delivered a host of alternative sources for buying K Cup packs, thereby creating more price competition.

Alternative cups emerge

These market forces have taken several years to establish. This past year, some of these forces came to a head with the introduction of alternative cartridges that OCS operators can use in Keurig brewers. Some of these products were displayed at the last National Automatic Merchandising Association OneShow in Las Vegas.

Earlier this summer, two supermarket chains, Kroger and Safeway, announced plans to launch private label coffee packs compatible with Keurig machines. The news sent GMCR shares down as much as 10 percent to a two-and-a-half-year low, according to reports. Some investors and analysts indicated that private-label brands will be able to undercut GMCR on price and erode its dominant market share in the U.S. market.

Meanwhile, Keurig has sued two manufacturers of coffee packs advertised as compatible with Keurig brewers. The company has indicated more legal challenges could be coming. While the lawsuits as of this report remain unsettled, OCS operators wonder what impact unauthorized cups will have on single-cup coffee pricing and on their own profitability.

The profitability challenge to OCS operators varies by geographic region and by company size. Price competition is fiercest in the Northeast, where K Cup packs are most established. Larger OCS operators have more purchasing clout with suppliers to begin with and are therefore less alarmed by the pricing issue than smaller operators.

OCS operators cautious

Few OCS operators interviewed by *Automatic Merchandiser* said they plan to offer the unauthorized cups. Some acknowledged that doing so violates the terms of their Keurig sales agreement.



iStockphoto

Several OCS operators, however, hope that the unauthorized cups bring some relief in K Cup pack prices. At the time of this writing, some operators said GMCR is becoming more flexible in its K Cup pricing.

Some operators also expressed hope that Keurig's legal action against alternative cartridge producers will fail, thereby maintaining pricing pressure on GMCR.

Complicating the situation further in the minds of some OCS operators is the fact that two K Cup patents are scheduled to expire in September of 2012.

Mike Tompkins, who operates Coffee Products Associates, a Bloomingdale, Ill.-based beverage consultancy, said some OCS operators worry that while they don't want to sell unauthorized products,

they fear that OCS competitors will use these products to undersell them in the market. "Potential exists for a competitor to gain an advantage (using an unauthorized product)," Tompkins said. "You want to protect yourself."

A random survey of OCS operators by *Automatic Merchandiser* found this sentiment not widespread. Only a few operators said they expect the unauthorized cups to play a significant role in the near future, due mainly to GMCR's market dominance. Most operators were skeptical that the providers of these products would be able to match the K Cup product quality at a competitive price over the long term.

Some welcome competition

There were exceptions. Some operators claimed they have been able to

sell unauthorized cups to customers. They claim these cups save the customer money and deliver a better profit. Such operators said they owe no loyalty to GMCR since the company failed to maintain its loyalty to them by not sustaining profitable pricing.

John Conti, owner of John Conti Coffee Co. in Louisville, Ky., thinks the expiring K Cup patents are driving the alternate K Cup products, which will force GMCR to lower K Cup pack prices. "GMCR had a lock on the market and were able to raise their price at will, before their patents expired. Other companies will produce K Cups at a much cheaper price. The same thing happened in Europe with Nespresso. Another company produced a like product and sold it for half the price on supermarket shelves. Our K Cup price is going to drop a bunch," he said. Conti himself is testing his own home-made cups for Keurig brewers.

Mike Klassen, owner of Blue Tiger Coffee Service Inc. in Seattle, Wash., a third generation OCS operator, plans to offer alternative cartridges in addition to K Cup packs. He believes that if he does not offer the alternative cups, some of his competitors will offer them, placing him at a disadvantage.

Klassen doesn't know what role the alternative cups will play long term, but he thinks other single-cup systems will deliver as good a cup of coffee as the K Cup pack. He is currently also offering "soft" pod single-cup systems in addition to K Cup packs.

Klassen said he wants to protect his profitability while remaining

CONTINUED ▶



competitive and helping his customers stay within their own budgets.

Most operators, even in the Northeast, said the unauthorized cups are not yet a competitive factor. Most don't expect they will be a factor, even if the lawsuits fail to stop the unauthorized products.

New cup players unproven

Chris Nachtrieb, owner of Chris Coffee Service Inc. in Albany, N.Y., doesn't think existing Keurig distributors will want to jeopardize their relations with GMCR over unproven competitors. Nachtrieb, a Keurig distributor, believes GMCR already has a battle plan in place.

"They (GMCR) are ready," Nachtrieb said. "Don't think that Green Mountain is going to sit back and let the violators pick them to death. They have a plan."

As for the unauthorized cups he's seen to date, Nachtrieb said: "They're no great shakes on price. Let them go ahead and spend all that money."

Nachtrieb, for his part, doesn't even object to the homeowner K Cup market. It has created a new source of customers for him. He

claims he does about \$6,000 a week delivering K Cup packs earmarked for home use to existing OCS customers. Nachtrieb doesn't deny there is pricing pressure on K Cup packs from office supply companies selling the products as loss leaders. But for his OCS customers, the service he provides that other channels can't deliver has value.

Many operators, meanwhile, are awaiting the outcome of GMCR's lawsuits against Sturm Foods Inc. and Rogers Family Co. GMCR claims the two companies' products

GMCR awaits action against Sturm Foods and Rogers Family Co.

Through its Keurig business unit, Green Mountain Coffee Roasters Inc. (GMCR) has sued Sturm Foods Inc. and Rogers Family Co. for patent infringement by offering to sell beverage cartridges that are advertised for use with Keurig's single-serve brewers and is currently awaiting the outcomes. The case against Sturm Foods was filed in October of 2010 while the one against Rogers was filed in November of 2011.

The suit against Sturm Foods notes Keurig has not authorized Sturm to use the Keurig trade mark, and that Sturm offers beverage cartridges that are advertised for use with Keurig's brewers. It cites trademark infringement, trade dress infringement, unfair competition, false advertising, deceptive trade practices, dilution, and unjust enrichment.

The suit further notes the descrip-

tions on the packaging for these cartridges conveys the false impression that Sturm's instant coffee is actually fresh-brewed.

Keurig spokesperson Suzanne DuLong said the two patents cited in the suit are not those that are scheduled for expiration in September 2012.

Sturm Foods was unavailable for comment on the lawsuit.

The complaint against Rogers notes the company's Website and packaging for its "OneCup" identify Keurig's, and only Keurig's, single-serve brewers as compatible for use with its "OneCups."

The suit against Rogers cites three patents, none of which are among those expiring in September 2012, DuLong said.

Jon Rogers, founder of Rogers Family Co., disputed the claims in the suit, saying they are without merit.

infringe upon multiple patents. (See sidebar above.)

Two early design K Cup pack patents are scheduled to end this month, September, 2012. However, Suzanne DuLong, a GMCR spokesperson, told *Automatic Merchandiser* the patents cited in both of these suits are not scheduled to expire any time soon.

GMCR to police the market

DuLong said GMCR will police its intellectual property going forward. "We expect to continue to aggressively defend our intellectual property portfolio," she said. "We fully anticipated as we neared patent expiration we would see competitors emerge."

Coffee market analysts have noted that because the expiring

patents do not apply to the newer K Cup packs, competitive producers aren't likely to gain any advantage from the intellectual property protected by those patents. The expiring patents apply to products that are not currently being marketed in any significant way.

Asked why GMCR has not taken legal action against the supermarkets that have publicly announced private label cups designed to work with Keurig brewers, DuLong said GMCR has taken action against the manufacturers of the single-serve packs, not the resellers.

GMCR has not discontinued supplying those supermarket chains with GMCR K Cup packs.

DuLong said the company is taking a "tiered approach to brands and pricing" going forward to



protect the profitability of OCS and other “wholesalers.”

She pointed to the new Keurig Vue™ brewers which are designed to give customers control over the strength, size, and temperature of their beverages. An away-from-home Vue™ will be available to Keurig authorized distributors in the fall of 2012.

The OCS Vue™ pack will work with the Vue™ homeowner brewer, and vice versa, DuLong said. However, the OCS Vue™ packs will incorporate RFID technology which will recommend brewer settings for specific beverages. This interactive-driven functionality will not be possible in homeowner brewers.

Starbucks Coffee Co. and GMCR announced the expansion of their relationship for the manu-

GMCR has recognized the changing market.

facturing, marketing, distribution and sale of Starbucks-branded Vue™ packs for use in the GMCR's Keurig® Vue™ brewer.

Some OCS operators believe some new soft pod brewers will emerge as an effective alternative to Keurig and other cartridge-based single-cup systems. As noted in the State of the Coffee Service Industry Report, soft pod systems have had a difficult start due to mechanical issues, but some OCS operators believe the newer models are much better and some will give the cartridge systems new competition.

The introduction of unauthorized products for the Keurig brewer has created some concerns among OCS operators who want to maintain their K Cup pack market share.

But coffee suppliers seeking to infringe upon the established K Cup market face a difficult challenge,

given the K Cup pack's dominant market position.

At the same time, the single-serve market continues to evolve, with competing single-cup systems offering alternatives to Keurig. GMCR has recognized the changing market and has responded with new offerings of its own. | ◀



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How adding coffee service drove a small Delaware water provider into the big time

By Emily Refermat, Managing Editor

Opportunity drove Renee Ridenour to start Pine Mountain Springs, a water provider for the Delaware area, in 1994. Keeping the business going took determination, adding the right mix of services and utilizing technology.



Tom and Renee Ridenour of Pine Mountain Springs, left, talk with Kraft technician Larry Tiernan about the Tassimo brewer, a popular option for high-end office coffee clients that want specialty coffee drinks.

A water company like Pine Mountain Springs Inc., based in Wilmington, Del., might seem an unlikely candidate for an operation profile in *Automatic Merchandiser*, but its savvy addition of office coffee service, and continued pairing of the two services, has created a successful company. Of its 4,000 customers, 70 percent are commercial locations which purchase both water and coffee services, noted Renee Ridenour, president and owner of the company.

Ridenour added coffee service three years after starting the business when one of her water locations requested it. She considers it a great move.

“Coffee is fun,” said Ridenour. “It’s all about making the customer feel like a king.” She loves going into a location and finding the right mix

of equipment and coffee that will increase employee morale, whether that’s a reliable Newco, Keurig single-cup or Tassimo premium drink brewer. But she’s never forgotten her beginning, and water continues to be an important part of her business in both 5-gallon water coolers and point-of-use filtration units.

Water business born of necessity

In 1994, Ridenour was working in another industry. In her spare time, she helped keep the books for her then boyfriend, now husband, Tom, who was a commissioned salesper-

son selling 5-gallon water coolers for a small spring water company. While Tom was successful, many coolers waiting for locations found their way into their living room.

“They were the ugly, old, metal, brown, water coolers,” Renee Ridenour remembered. “I started a water business in self defense...so I could get my pristine living room back.” In June, she started Pine Mountain Springs and found locations for all the coolers.

In 1997, a water customer asked her if she offered coffee because they were unhappy with their OCS

provider. Ridenour decided to try it, and she still has that same customer today.

“They (water and coffee) are great companion services,” said Ridenour. She realized right away that by adding coffee service, she sold more water, since most of the coffee is made with filtered or bottled water. Ridenour noted that run-off water from farms in rural Delaware and the naturally occurring sulfur in water reservoirs makes filtered water or spring water a high priority in her area.

In 2005, the customer who had suggested OCS to Ridenour encouraged her to expand into vending. She tried it, and while it was successful, a number of factors convinced her to sell that portion of the business in 2008. First, she noticed a lot of consolidation among companies in the area. Then her residential water customers started to diminish. Both were signs of a crumbling economy. She was also diagnosed with breast cancer. She and her husband were unsure how her treatments would go and decided to stick to the services they knew best. “Plus, I never liked getting a call from that irate customer on Saturday who lost 50 cents in a machine,” Ridenour said.

Ridenour has since recovered from the cancer treatments and considers herself cured.

Division of labor

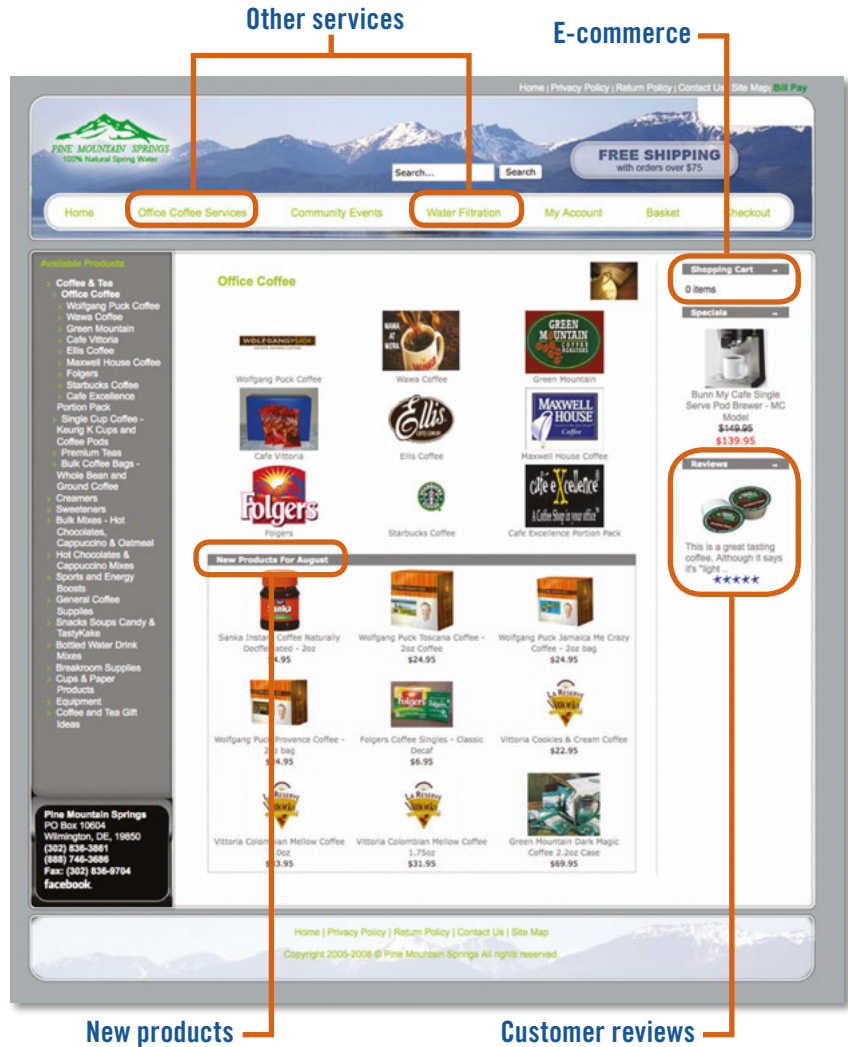
Ridenour handles the marketing, advertising, Website, and anything that plugs into the computer. She also does the product and equipment sourcing and looks after the purchasing. Her husband, Tom, is the service department, manages the drivers, installs equipment, and orders inventory.

While they once had a few more employees, cutbacks during the

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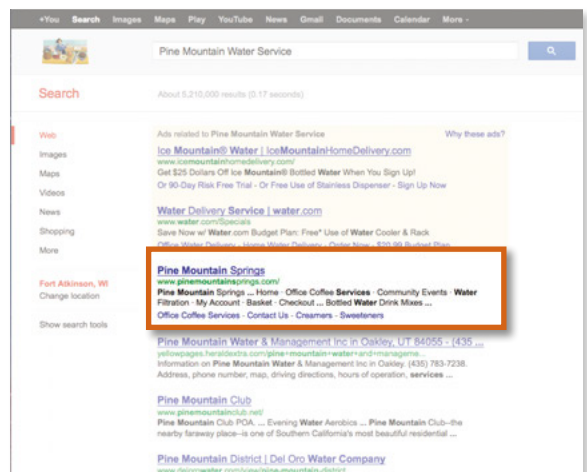
Online ordering proves useful

Pine Mountain Springs' customers order online from the professionally designed Website. It keeps the pricing fair and consistent, while allowing customers to see special deals, product reviews and what's new.



Search engine optimization a helpful marketing tool

Renee Ridenour has hired a consultant to improve her company's Internet search engine rankings.



recession and more efficient use of computer systems forced the elimination of some positions. However, business is back sufficiently that Ridenour is building another route and planning to hire a new driver this fall.

Customers want water

Pine Mountain Springs still offers the traditional 5-gallon water coolers. While Ridenour has noticed a trend towards filtration at offices, this summer she actually saw a reversal. "It (5-gallon water sales) has gone down every month for the last couple years, but the last three months have seen an increase," said Ridenour. It's too soon to tell



Geoff Ramsey serves as both OCS driver and repairman at Pine Mountain Springs. "We're very lucky to have him," said Renee Ridenour, company owner and president.

if this trend will continue, but 5-gallon water is still strong.

The strength of 5-gallon coolers could have something to do with cost savings, Ridenour noted. In

an office that has 10 or fewer people, she often recommends the 5-gallon cooler because it costs less per month than filtration. However, about half of these small offices choose point-of-use water instead, whether it's to prevent lifting 50-pound bottles, regain the storage areas previously taken up by 5-gallon water bottles, or because they want to add coffee service as well.

When Ridenour installs a point-of-use system, she installs the stand-alone unit that looks just like a 5-gallon water cooler. She said it gives the employees silent reassurance that the water is better quality, whether it's the spring water or just filtered water.

Ridenour doesn't offer reverse osmosis filters because she hasn't seen a filter that can keep up with high water demands. "Reverse osmosis in an office that's a heavy consumer would take a long time, and the tank would have to be huge," she said. It's just not right for her locations.

Brewer selection challenging

Ridenour loves connecting the right coffee equipment and products with a location. Going in and replacing old equipment with something new or offering a better coffee boosts morale, she noted. In a location that's downsizing, where wages have been frozen and there are cutbacks, switching to a single-cup brewer can help customers feel better about their jobs. "It says to an employee that the employer still cares about me because they're giving me a premium cup of coffee," said Ridenour. While Keurig is well known to customers, she also

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offers Tassimo brewers to higher-end clients who want coffee shop quality drinks, such as café mochas, espresso and lattés. “It’s an excellent product for that,” said Ridenour.

For customers that are more concerned about cost, she offers almost exclusively Newco equipment. “They’ve gotten the science right on

bulk coffee,” said Ridenour. “The brewers won’t brew unless the water is at the right temperature, etc.”

She also offers soft pod brewers as a less expensive single-cup option. Ridenour always thought soft pods were a good idea, but the equipment broke down often. Now the equipment is reliable,

and will make a good cup of coffee consistently and easily. She uses the Newco Fresh Cup pod brewer. Soft pods are especially useful if a location prefers a brand of coffee unavailable as a K Cup. “There’s a lot of providers and no restrictions,” she said.

Technology makes a difference

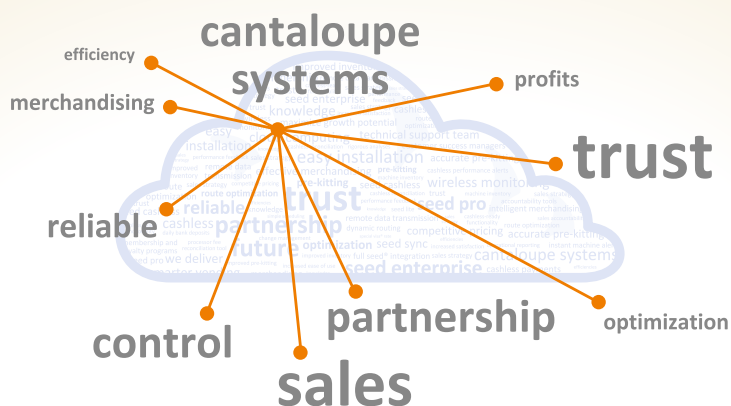
Ridenour recognized the value of experts early on. In 1997, she paid \$30,000 to get a software system for invoices, inventory control and to run back-end operations.

New software costs less, does more

In 1999, the software technology had evolved so much, it only cost her \$10,000 to get a superior system, Advantage Route Systems. The new system eliminated data entry, addition errors, price discrepancies, and filing and delivery issues. “It’s a fabulous little program,” said Ridenour. Every driver has a computer. And each location has an account, so if it’s a branch location that can only order certain products, those are the only products the location sees as options. It provides customers a copy of each invoice by email, notifications of missed deliveries, and statements. “The cost savings the program gives us is phenomenal,” she said.

The new system helped her win back a major account she’d lost in 2010. The large plant needed water delivered to 13 different locations. Ridenour knew from running routes herself that being hot, tired and working hard meant one or more of those stops might get missed. So, she made each stop a separate invoice, rather than one for the entire location. It made it easier for a driver to know whether or not they had visited every stop. It was this attention to detail and service, using technology to make delivery easier, which brought the location

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back. “I actually had people shake my hand and say, ‘I’m so glad you’re back,’” said Ridenour.

Quality Website a must

Ridenour hired a professional Website designer in 2005 to create www.pinemountainsprings.com. The site allows her to communicate with existing customers about the new products she offers. She drives them to the site by asking them to place orders online where they can see all the new coffee selections in color. Ridenour also sends out emails before a scheduled delivery or when she adds a new product. These emails link back to the Website.

Having companies order online allows her to keep prices consistent. What the customer sees on the Website is the current price.

Operation Profile Pine Mountain Springs Inc.

Location: Wilmington, Del.

Founded: 1994

Owner: Renee Ridenour

Number of employees: 3

Main equipment lines: Newco, Keurig, Tassimo, EverPure

Software provider: Advantage Route Systems

Annual revenue: Not Revealed

The only exceptions are a few high volume customers who are told privately that they get a discount.

“We also get a lot of people who buy (online) that aren’t our customers,” said Ridenour. She has people ordering coffee from all over the country and ships product using UPS.

This year, she hired a search engine optimization (SEO) consultant to help Pine Mountain Springs rank higher in Internet searches for water, coffee service and other products. “There’s just too much I don’t know, too many other directions I’m running,” Ridenour said about her decision to hire a consultant.

In the end, Ridenour’s business strategy was straightforward: Recognize a good business opportunity when you see it (and recognize one you don’t want to invest in). Then use technology to make the service better. It’s a winning combination that’s kept her successful for 18 years. | ◀

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Rebound continues for t

By Elliot Maras, Editor

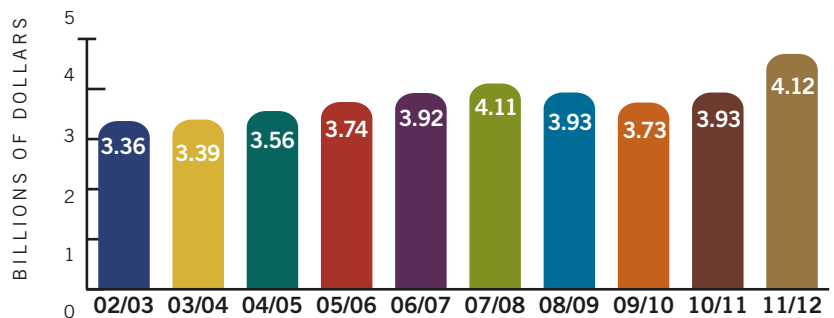
Most operators raise prices for the second year in a row, despite a recession, demonstrating customer appreciation for OCS

ast year, the headline was, “A new professionalism defines OCS.” This year, the *Automatic Merchandiser* State of the Coffee Service Industry Report confirms that a new professionalism has in fact taken hold, and OCS has established an identity as a service that American businesses understand and appreciate.

OCS has come of age. The products and delivery systems have evolved. Operators have learned through trial and error how to use these tools to provide an important service in the work place. One that enhances employee productivity.

This evolution, supported by the specialty coffee industry’s efforts in recent years to educate consumers

CHART 1: OCS REVENUES – 10-YEAR HISTORY

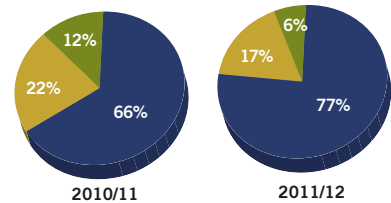


to appreciate better quality coffee, has resulted an OCS industry capable of maintaining a healthy growth curve in a challenging economic environment.

The 12-month period ending June 2012 delivered the second consecutive 5-percentage point gain

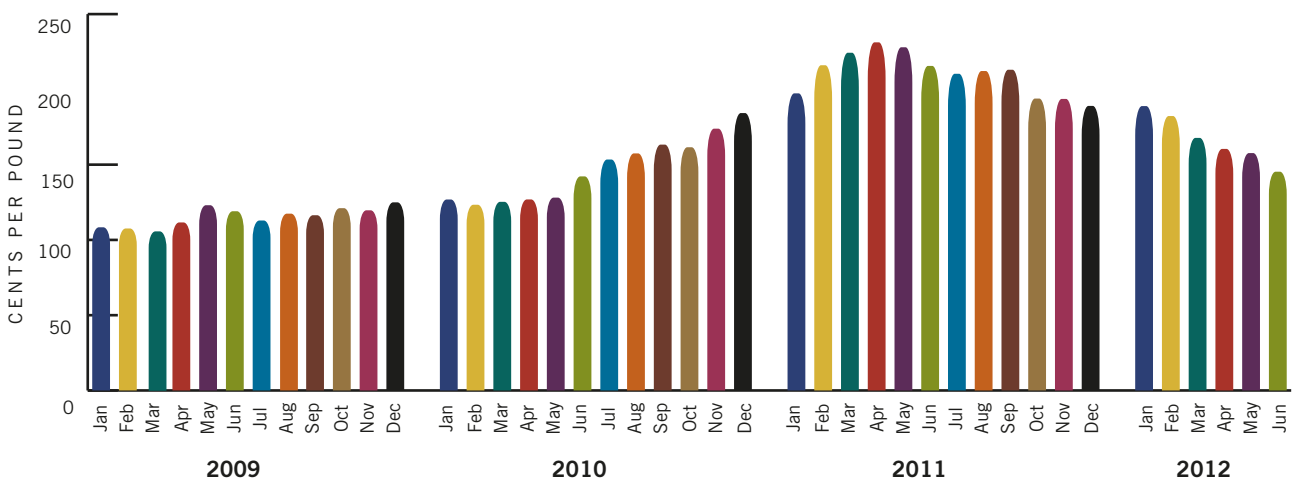
CHART 2: OPERATOR SALES CHANGE, 2-YEAR REVIEW

● SALES ROSE ● SALES DECLINED ● NO CHANGE



in OCS sales, according to the *Automatic Merchandiser* State of the Coffee Service Industry Report. In the last 24 months, OCS operators more than recovered the revenue they lost in the prior 24-month period caused by the recession. The 10 percent-age point loss in the prior two years

CHART 3: COMPOSITE GREEN COFFEE PRICES, 2008 TO JUNE, 2012



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

he second straight year

was caused by a fallout in worksite populations and massive budget cuts borne of business uncertainty.

The report is based on returned email surveys sent to more than 9,000 emails identified as OCS operators and vending operators with OCS in the *Automatic Merchandiser* database.

In the recent 12-month period, OCS sales reached a record \$4.12 billion, surpassing the pre-recession level, indicated in Chart 1. For the second consecutive year, the majority of operators reported higher sales than the prior year, indicated in Chart 2.

Driving the growth once again was price increases. Operators overwhelmingly noted that customers were willing to pay more for better quality service, despite economic uncertainty.

The rising consumer appreciation of good coffee has benefited just about all retail coffee segments, including OCS.

Daily coffee consumption soared by 7 percentage points, moving coffee well ahead of soft drinks in 2012, according to the 2012 National Coffee Drinking Trends survey from the National Coffee Association (NCA). Total coffee jumped from 68 percent to 73 percent for past-week consumption and from 76 percent to 78 percent for past-year consumption.

Daily coffee consumption, long neck-and-neck with soft drinks, moved into a solid lead by more than 10 percentage points in 2012, NCA noted. Gourmet coffee consumption also grew, moving from 37 percent of all cups of coffee consumed in the U.S. in 2011 to 46 percent in 2012.

OPERATOR PRICING ACTIVITY

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

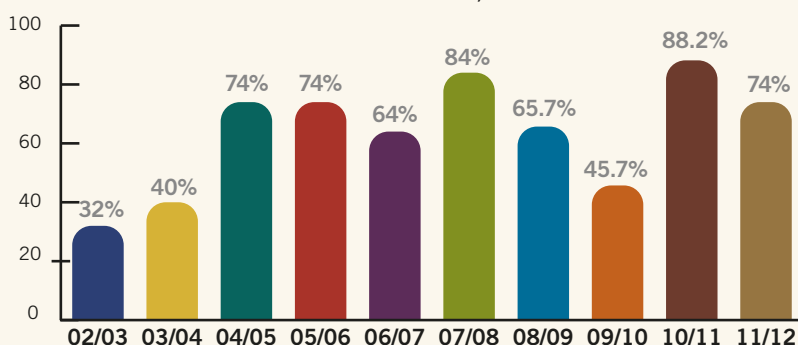


CHART 4B: OPERATOR PRICING ACTIVITY, 4-YEAR REVIEW

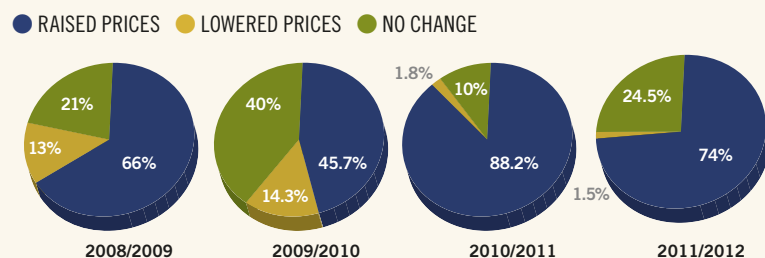


CHART 4C: REVENUE PER CUP IN CENTS PER CUP, FRACTION PACK PLUMBED IN/POUROVER COFFEE, 10-YEAR REVIEW

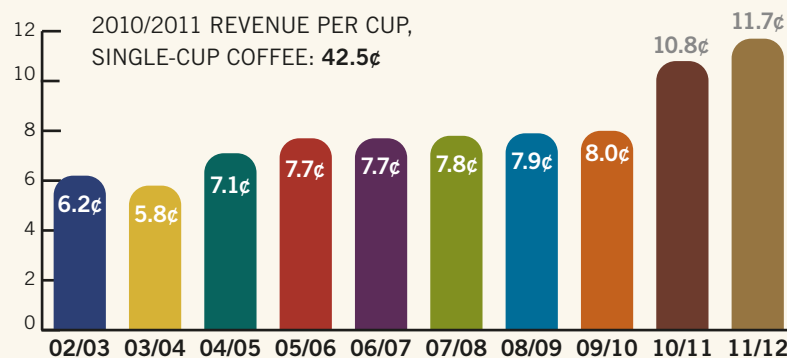


CHART 4D: REVENUE PER CUP, SINGLE-CUP COFFEE, 2-YEAR REVIEW

	2010/2011	2011/2012
Revenue	42.5¢	41.8¢

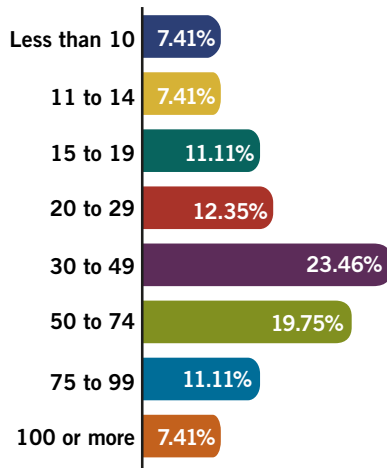
Price increases drive growth

In 2011/2012, for the second straight year, the majority of OCS operators reported raising prices, indicated in Chart 4a. The number

of operators raising prices was less in the recent 12-month period than the prior year, but a sizeable majority raised prices in both years.

CONTINUED ►

CHART 5: ACCOUNT POPULATIONS BY SIZE, 2011/2012



A key difference in 2011/2012 was the OCS coffee price increases were less driven by manufacturer price increases. Coffee roasters raised prices in 2011, but in early 2012, national name brand roasters announced price decreases.

The retail coffee price decreases did not cause OCS operators to lower prices.

The fact that most OCS operators continued to raise prices in 2012 demonstrates they have educated the customer base about the value of the service they provide. These price increases enabled OCS operators to recover some of the coffee margin erosion they suffered in recent years.

Another significant factor has been the customer's growing appreciation of single-cup systems. In recent years, Green Mountain Coffee Roasters Inc., the nation's leading single-cup player, made a major push into the consumer market. While some OCS operators viewed the move with suspicion, it has delivered a massive adoption of homeowner single-cup systems and greater appreciation of single-cup coffee.

Ownership of single-cup systems jumped to 10 percent from 7 percent in 2012, according to NCA, and

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

	07/08	08/09	09/10	10/11	11/12
Private label coffee	23%	27%	39.69%	28.11%	28.23%
National brand coffee	35	31	21.4	26.92	28.08
Espresso/cappuccino	3	2	4.94	3.6	3.77
Other coffee*	8	9	4.63	12.07	9.86
Total Coffee	69	69	70.66	70.7	69.94
Other hot beverages	5	6	7	4.9	5.54
Soft drinks/juices	4	3	3.5	5.39	5.73
Bottled/filtered water	5	5	4	5.7	4.75
Creamers/sweeteners	7	7	5	5.63	6.62
Cups/paper products	6	6	5.5	5.41	6.17
Other	3	4	4	2.27	1.25

*Includes flavored, whole bean and varietal.

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

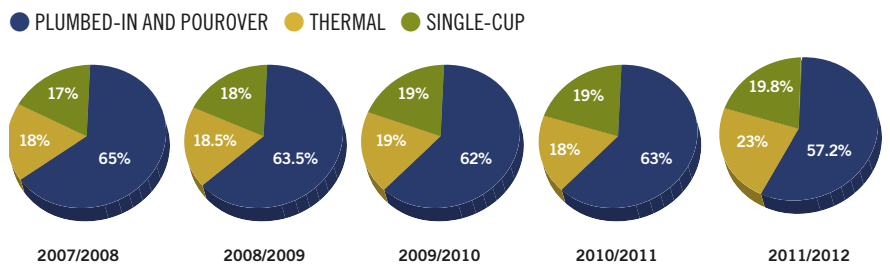
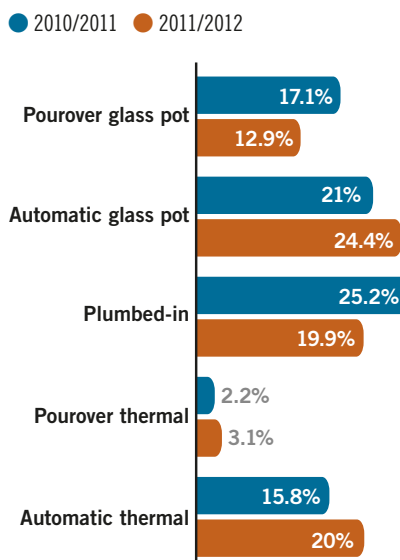


CHART 7B: PLUMBED-IN, AUTOMATIC AND THERMAL AS % OF TOTAL, 2-YEAR REVIEW



36 percent of those said they have owned their single-cup brewer for less than six months.

Perception of the quality of coffee from single-cup systems con-

tinued to improve in 2012, with 25 percent rating the brewers as "excellent" versus 15 percent who did so the prior year, according to NCA. By combining those who consider single-cup brewers as "excellent" and "very good," 57 percent were positive in 2012 versus 45 percent in 2011.

OCS less affected by economic woes

The OCS industry has fared much better during the nation's recession than the vending industry, which lost revenue every year since the recession began in late 2007. A key reason being that OCS sales do not rely on consumer confidence as much as vending sales do. The OCS buyer, unlike vending purchaser, is not the end user.

OCS sales are affected by employment levels. Fewer people in the work place translates into less demand for work place services such as OCS. In addition, employ-

CONTINUED ►

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

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

MARKETER	PRODUCT(S)	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Bodecker Brewed	Bodecker	2,100	2,600	3,100	3,130	3,160	4,160
Cafection	Avalon	28,150	32,150	36,500	40,000	56,000	62,500
Cafejo	Cafejo	11,250	16,250	23,000	25,000	30,000	38,000
Crane	Café System, Genesis	12,150	13,150	13,150	13,400	15,100	15,300
Filterfresh	Filterfresh	18,040	18,050	20,300	22,550	22,500	23,063
Grindmaster	Grindmaster	0	0	10,000	15,000	17,200	21,700
Keurig	Keurig	211,821	345,712	378,420	398,500*	587,500**	743,472***
Kraft	Gevalia, Tassimo Professional	3,500	3,900	3,900	6,500	9,000	13,000
Lavazza	Espresso Point, Lavazza Blue	NA	17,000	21,000	23,000	27,000	27,000
Mars Drinks	Mars Drinks (Flavia)	250,000	362,500	362,500	384,500	434,500	484,500
Newco	Smartcup, Freshcup	1,800	1,800	1,800	3,300	4,300	6,600
Rheavendors	Rhea, Cino,	3,194	3,644	4,373	4,810	4,810	5,291
Saeco USA	Saeco, Estro	24,200	26,400	27,705	29,125	30,141	32,139
Sara Lee	Douwe Egberts	775	2,325	3,000	4,500	7,000	7,000
Starbucks	Starbucks	5,000	7,500	8,000	10,000	11,000	12,000
Technologies Coffea	Coffea	0	0	0	275	2,200	3,500
VE Global Solutions	Venus, Cypris, Juno, Prosyd	12,500	16,500	18,800	21,700	26,100	26,350
VE Global Solutions	Brio, Colibri, Koro, Korinto, Konvivo	42,000	51,500	59,600	67,675	72,950	74,150
Wolfgang Puck	Wolfgang Puck	0	1,000	5,000	6,500	2,000	5,000
Other		7,050	7,050	3,750	3,750	3,750	3,500
Total		633,530	929,031	1,003,898	1,083,715	1,366,211	1,608,225

* Does not include 480,000 at-home Keurig brewers that were in offices in 2008/2009.

** Does not include 980,000 at-home Keurig brewers that were in offices 2010/2011.

*** Does not include 1.1 million at-home Keurig brewers that were in offices 2011/2012.

ers scrutinized all their costs in an effort to improve their profitability. In some cases, they eliminated or reduced spending on OCS.

But as employment levels have improved in the past year, (the nation's unemployment rate fell from a high of 10 percent in the first quarter of 2009 to a low of 8.1 percent in April 2012, rising to 8.2 percent in May and June), OCS has been quicker than vending to recover. As noted in the *Automatic Merchandiser* State of the Vending Industry Report, the employment gain did not benefit vending as much as some expected since many workers were less willing to spend money due to uncertainty about their employment security. This dynamic did not affect OCS for reasons stated above.

CHART 9: ACCOUNTS BY TYPE, 5-YEAR REVIEW

	07/08	08/09	09/10	10/11	11/12
Offices	54%	58%	54%	55.4%	55.75%
Business and industry	24	18	16	18.53	18.7
Restaurants, delis, bakeries	3	4	7	6.23	4.46
Convenience stores	4	5	8	3.52	5.19
Government/military	1	1	1	1.45	3.3
Schools/colleges	6	4	5	4.84	3.77
Retail outlets	2	1	3	1.42	1.93
Other (Health care/hotels)	6	8	6	7.61	6.89

Another difference between vending and OCS is that the former service has a larger minimum population requirement. The fallout in large worksites has undermined vending far more than OCS.

Employer cost consciousness continues to restrain some employers from spending more on OCS. While many employers stopped cutting their payrolls in the last year, most

have not restaffed to pre-recession levels. And while many employers want to provide OCS to improve the work environment, some companies have opted not to have OCS and other benefits until they are able to rehire more laid-off employees.

OCS operators face higher costs

Chart 11 notes that more OCS operators were forced to absorb

higher operating costs in 2011/2012 than any of the last four years.

On the positive side, fewer operators reduced staff this past year than any of the past four, indicated in Chart 12a, and a 62 percent majority noted no staff changes.

In each of the last 12-month periods, operators who added staff most frequently added delivery personnel, indicated in Chart 12b. This demonstrates a healthy level of business expansion.

Another positive sign, indicated in Chart 12c, is that OCS staff reductions, where they occurred, did not include sales people. This demonstrates the high level of importance that operators place on sales in their operations.

While fewer operators offered customers online ordering, indicated in Chart 14, more are using social

media, indicated in Chart 15a. Operators interviewed noted they view social media as a customer relations tool more than a sales tool.

More OCS operators billed customers for fuel in 2011/2012 than the prior year, indicated in Chart 10a, reversing a decline in the prior year. Operators have increasingly billed for fuel on a selective basis, indicated in Chart 10b.

Single-cup resumes rapid growth

One of the most significant signs of OCS strength in the last two years has been the return to a steep growth of single-cup brewers,

indicated in Chart 8. The growth slowed in the prior two years when locations were more cost conscious. Since then, locations have become more willing to spend for good quality OCS. Further strengthening this demand has been rising consumer appreciation of single-cup driven by a rapidly growing homeowner market.

While the homeowner single-cup market has created some additional pricing pressure for OCS operators, the increased awareness resulted in a more vigorous work-site demand for single-cup.

CONTINUED ►

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FUEL CHARGE ACTIVITY

CHART 10A: COMPANY BILLED CUSTOMERS FOR FUEL, 4-YEAR REVIEW

- YES
- NO

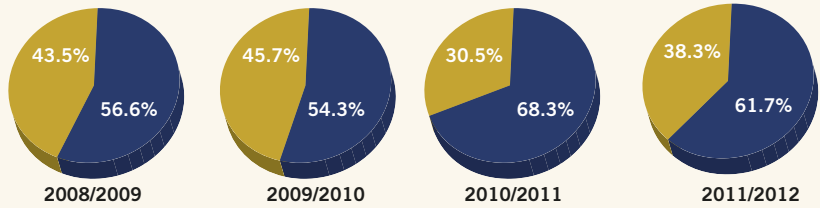


CHART 10B: HOW MANY CUSTOMERS WERE BILLED, 4-YEAR REVIEW

- ALL CUSTOMERS
- ON SELECTIVE BASIS

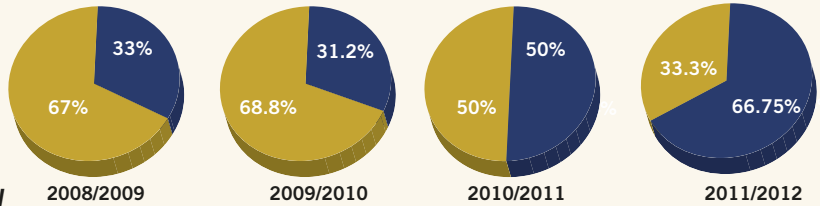


CHART 10C: HOW OFTEN WERE CUSTOMERS BILLED, 4-YEAR REVIEW

- ALL DELIVERIES
- SPECIAL DELIVERIES
- HALF OF DELIVERIES
- LESS THAN HALF
- ALL WHO DON'T OBJECT

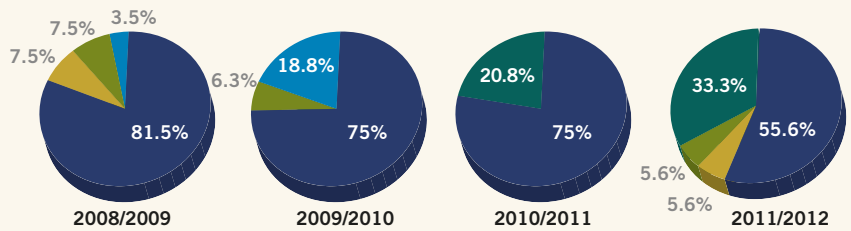
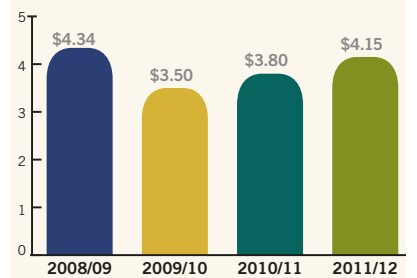


CHART 10D: AVERAGE AMOUNT CHARGED FOR FUEL PER DELIVERY, 4-YEAR REVIEW



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Many operators who worried about the margin erosion of single-cup caused by competition from the homeowner market noticed that the rising demand for single-cup delivered higher volume which in many cases offset the impact of lower profit margins.

Single-cup brewers have become the fastest growing retail coffee format. The single-cup category rose 105 percent in U.S.

food stores over the last year for the period ending June 10, 2012, according to Symphony IRI Group, Inc., a research firm. Single-cup was the second fastest growing sub-category overall in dollar sales within total U.S. grocery.

Homeowner single-cup has created new opportunities for OCS as well as a new source of competition.

Retail competition for single-cup cartridges became fiercer in the last year as more retailers began carrying single-cup products.

This downward price pressure resulted in a slight decline in single-cup prices, noted in Chart 4c. The decline from 42.5 cents to 41.8 cents per cup was not significant and, at 0.7 cents, it falls within the margin of error. The fact remains that single-cup coffee, the fastest growing OCS category, did not net higher

prices in a year in which overall OCS prices increased.

The inability of OCS operators to raise single-cup prices challenges operator profitability.

The growing customer demand for single-cup coffee delivered volume gains for some operators that were significant enough to offset the lower margins. Some operators believe that gross dollar gains are more important than margins.

The “dollars versus margins” debate is not new in OCS.

Fraction pack value changes

Another positive result from the growth of single-cup was the price differential between single-cup and fraction pack coffee. Rising customer awareness of single-cup coffee, with its higher prices, gives fraction pack coffee a stronger cost/

value perception since it is less expensive. This, coupled with the increased offerings of retail coffee brands in OCS with perceived high product quality, supported higher fractional pack prices.

Chart 4c indicates consistently higher prices for fraction pack coffee through the recession. The traditional “five cents a cup” mantra that ruled OCS in its earlier years has long been relegated to the history books.

Fraction pack sales also carried higher profit margins than single-cup sales. A sizeable portion of fraction pack coffee is private label, which is more profitable than national brand coffee.

Falling green coffee prices in 2012, indicated in Chart 3, benefited private label profitability.

CONTINUED ►

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The growth in single-cup contributed to the gain in national brand coffee for the second straight year, indicated in Chart 6. The dominant and fastest growing single-cup systems are cartridge-based systems, such as Keurig, Flavia and Tassimo, which carry national brand coffee.

National brands have posted a slight comeback since the recession began. National brands lost market share in 2009/2010 for two reasons. One reason, already noted, was that the demand for single-cup slowed in the first two years of the recession, curtailing the growth of national brands.

The second reason was that green coffee prices remained steady

through most of 2009/2010, encouraging OCS operators to offer more profitable private label alternatives. By offering private label, operators could provide coffee that was both less expensive to themselves and their customers.

In the last two years, single-cup has rebounded rapidly, reviving national brands and rechallengeing OCS operator profitability.

Single-cup systems that allow operators to use private label coffee, such as hopper-based and soft

pod-based systems, also increased in recent years, indicated in Chart 8. However, the cartridge-based systems (Keurig, Flavia and Tassimo) increased the most. Keurig and Tassimo also have strong market positions in the homeowner market, which points to continued growth in the work site environment for these products.

The growth of the homeowner market has created a new market opportunity for some OCS operators. While many operators complained about competition from the homeowner market and a new reason for customers to pilfer coffee at work, some operators turned this perceived threat into an opportunity for ancillary sales.

Such operators gained incremental sales by inviting customers to place coffee orders at the work site for home use. Operators offer the coffee at competitive prices and provide the convenience of delivering it at the customer's work site. Operators deliver these orders on their routes, incurring almost no additional labor cost.

Operators noted that coffee pilferage does require policing, but this issue predates single-cup coffee and has not become noticeably worse because of it. Operators also noted the issue is often a greater concern to the location manager than reality merits. In such cases, operators are able to address the concern by communicating with location managers.

A bigger operator concern is pricing pressure from retailers

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IN the last two years, single-cup has rebounded rapidly.

CHART 11: HOW RISING COSTS ARE BEING HANDLED, 4-YEAR REVIEW

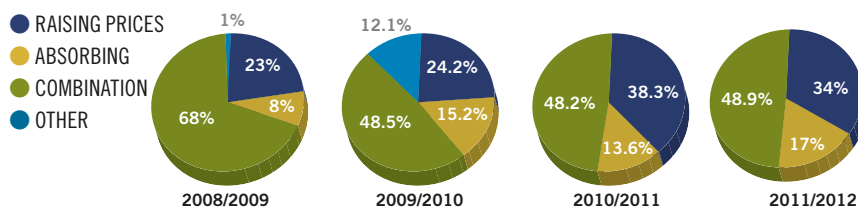


CHART 12A: HAVE ADDED OR REDUCED STAFF IN THE LAST 12 MONTHS, 4-YEAR REVIEW

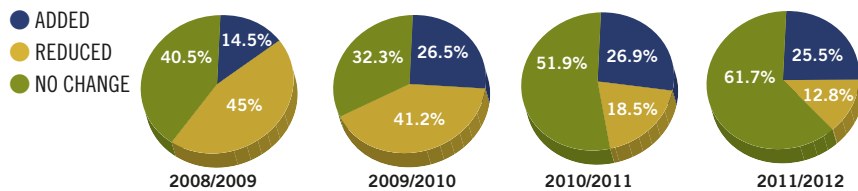


CHART 12B: IF ADDED STAFF, IN WHICH AREAS?

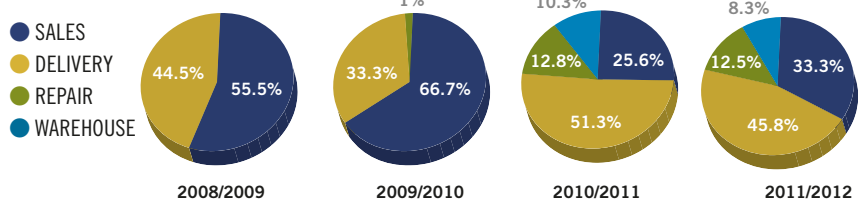
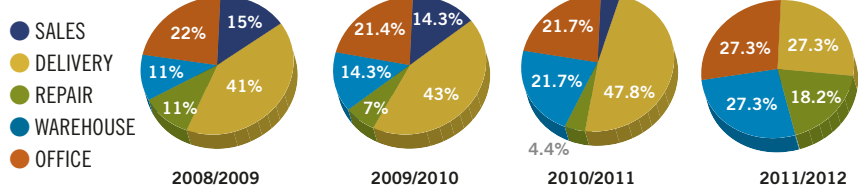


CHART 12C: IF REDUCED STAFF, WHICH AREAS?





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on Keurig K Cup®s, the dominant single-cup product, both at retail and in OCS. Symphony IRI Group, Inc., the retail research firm, noted the K-Cup® packs from Green Mountain Coffee Roaster's sold through the grocery channel hold a clear lead over other single-cup beverage packs.

Equipment manufacturers and coffee roasters have developed K Cup® alternatives to offer OCS operators a more profitable alternative. These efforts increased in the past year in anticipation of the expiration of patents in September, 2012 on some earlier K Cup®s. (See story on page 12).

Whether or not competing products can offer the same popularity as K Cup®s remains to be seen.

Manufacturers of soft pod-based, single-cup systems have attempted

CHART 13A: HAVE ADDED PRODUCTS THAT ADDRESS ENVIRONMENTAL CONCERNS, 4-YEAR REVIEW

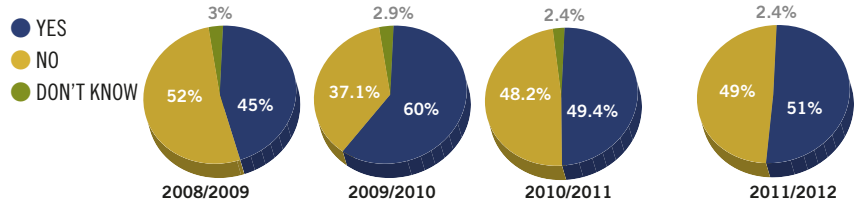
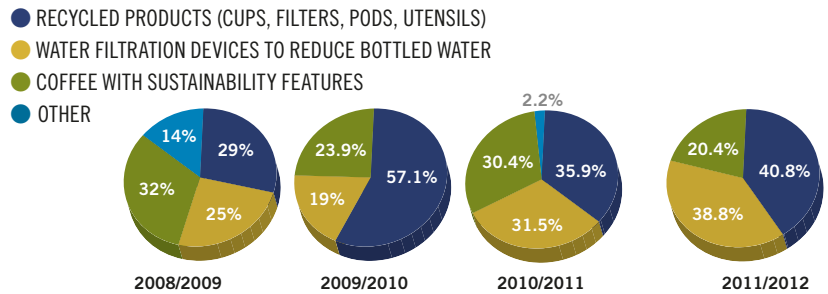


CHART 13B: PRODUCTS ADDED THAT ADDRESS ENVIRONMENTAL CONCERNS



to offer a more profitable alternative to Kuerig and other cartridge systems for several years.

The soft pod-based systems offer much of the same benefit as cartridge systems in that they have



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CHART 14: COMPANY CURRENTLY OFFERS ONLINE ORDERING ON ITS WEBSITE, 2-YEAR REVIEW

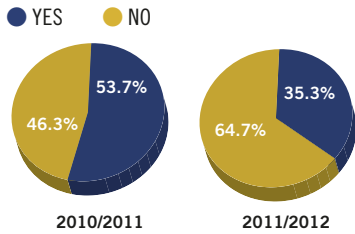


CHART 15A: COMPANY USES SOCIAL MEDIA WEBSITES, 2-YEAR REVIEW

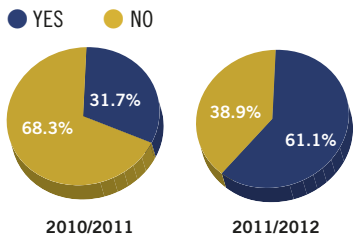
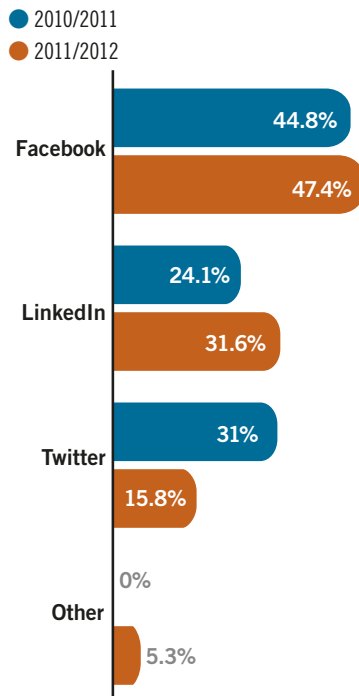


CHART 15B: SOCIAL MEDIA WEBSITES USED



portion and brewing control, but they also offer the added benefit of allowing operators to source coffee from different suppliers. The soft pod-based systems also have the advantage of being biodegradable.

Many operators agree that the soft pod-based systems have improved in quality in recent years. However, these systems are hampered by the following: 1) The initial systems introduced to market several years ago were mechanically faulty and delivered negative customer experiences that need to be overcome and 2) The cartridge-based systems have already secured market dominance.

In addition to these concerns, given the current dominance of the established single-cup systems, any new systems will require OCS

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operators to invest in additional product and equipment and manage additional inventory.

Some OCS operators are nonetheless enthusiastic about soft pod-based systems on the basis that some of the newer systems deliver a superior tasting product.

Environmental concerns continue

The number of operators offering products that address environmental concerns did not increase in 2011/2012, despite widespread publicity about environmental issues. For the second straight year, operators interviewed noted that consumers say they are concerned about environmental issues but are not willing to pay extra for environmentally-friendly products.

Technological innovation continues in OCS equipment. Brewers

OCS acquisitions drive national players

The last 12-month period witnessed a more than usual amount of OCS acquisition activity. In late 2011, Aramark Corp. acquired the Filterfresh office coffee services business from Green Mountain Coffee Roasters, Inc. In early 2012, DS Waters of America, Inc. agreed to acquire the assets of The Standard Companies Inc.

In addition to the growth of these two nationwide operators, Canteen Vending Services Inc. has emerged as a national OCS player in recent years.

have been introduced with remote monitoring capability that makes OCS management more efficient. Brewers have also been introduced with video touchscreens, similar to some of the new vending machines.

These and other innovations continue to emerge at OCS industry trade shows. Operators are evaluating new tools and compar-

ing them to those they already have to meet the customer's demand for good quality coffee in the work place.

The newer delivery systems are gaining popularity as OCS operators find these tools allow them to provide customers a high quality refreshment experience at an affordable price in the work place. | ◀

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2012



Tony Arujo, Imperial Coffee and Services Inc., Ontario, Canada

A seasoned driver, this OCS professional has an exemplary record and regularly receives the most customer accolades

TONY ARUJO, the first office coffee service driver to be recognized as OCS Driver of the Year, exemplifies the dedication, professionalism and customer service of the best drivers, even after three decades.

“There’s not a more well-deserving individual in the industry to be honored with this award,” said Mark Steiner, president, Imperial Coffee and Services. “Tony really and truly is one of a kind.”

30-year veteran maintains great service

For the past 30 years, Arujo has been a customer service representative (CSR), the company’s term for OCS driver, at Toronto, Canada-based Imperial Coffee and Services Inc. In that time, he’s missed virtually no days of work, doesn’t resubmit invoices, is professional, and is usually one of the first people at the office in the morning.

“Tony is an absolute pleasure to be around, and is a true professional in every sense of the word,” said Steiner. “It’s not just a job to him.”

Arujo enjoys the independence of being a CSR. He likes to go at his own pace so he can maintain customer relations and get the job done the way he thinks it should be done. He is also a motorcycle enthusiast.

Contest prizes: iPad and CTW trip

As the finalist in this year’s contest, Arujo will win an iPad notebook and a trip to the National Automatic Merchandiser Association’s CoffeeTea&Water event in 2012.

Automatic Merchandiser and Kraft Vending & OCS started recognizing OCS drivers at the end of 2011. Arujo was chosen based on his score from the online nomination form on the Awards page of www.VendingMarketWatch.com. The score is based on years as a driver, miles traveled, accidents and citations, thoroughness, customer compliments, truck condition, and sales.

Please congratulate Arujo on a job well done while at the NAMA’s CTW on Nov. 13 to 15, 2012, at the New Orleans Hyatt Regency in New Orleans, La. | ◀

“There’s not a more well-deserving individual in the industry to be honored with this award.”

Vending Business in a Jam?

See what our customers have to say.

"The Nestlé Waters bottle has become a resolution for issues we previously had vending water from can vendors. It has **a great price point, and bottle jams are nonexistent** since the Vend Bottle was implemented in our machines."

*Aimee Jobe, Apple Automatic
Food Service, Plymouth, MN*

**"Absolutely the best
Vend Bottle yet!"**

*Steve Platt, A Plus Vending,
Castro Valley, CA*

"No Jams"

*Lynn Joseph, Premium
Vending, Londonderry, NH*

"The Arrowhead 16 oz Vend Bottle is working great in our vending machines. It has been accepted very well in the marketplace and we have **no jams or extra service calls.**"

*Jerry Debryuan, Action Enterprises,
Denver, CO*

"The 16 oz Vend Bottle is tremendous. It has **eliminated jams, and sales have increased** because of this."

*Robert Wartman,
Texas Refreshments,
Midland, TX*



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Upgrade your filled-cracker offering to include RITZ CRACKERFULS Classic Cheddar, made with real cheese and 6g whole grain per serving¹.

Contact your Kraft Foodservice Representative to order this top-selling retail flavor today!²

¹ RITZ CRACKERFULS Classic Cheddar Filled Crackers contain 6g of whole grain per 28g serving. Nutritionists recommend eating 3 or more servings of whole grain foods per day (about 16g whole grain per serving or at least 48g per day). ² Kraft Foods Sales Data, 26 week ending 03/30/12

 **kraft foods**
Vending & OCS