TECHNOLOGY EMPOWERS OPERATORS IN 2013

By Emily Refermat, Editor

While competitive pressures and commodity prices continued to challenge vending, micro market and coffee service operators in 2013, more business owners reported adding technology and effectively addressing sales data and logistics to increase profits as the economy, in most areas, continued to improve.

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

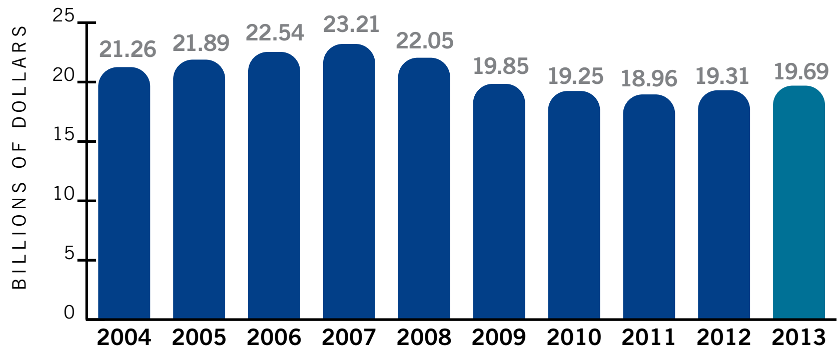


CHART 2: OPERATOR SALES

SIZE	REVENUE RANGE	% OF 2013 OPERATORS	PROJECTED 2013 SALES	% OF 2013 SALES
Small	under $1M	55.7%	$2.07B	11%
Medium	$1M - $4.9M	23.9%	4.39B	23.5%
Large	$5M - $9.9M	9.6%	4.9B	26.2%
Extra large	$10M +	10.8%	7.36B	39.3%
TOTAL			$18.72 BILLION*	

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

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

Our industry has seen another year of modest growth. Vending operators were able to use hardware and software, like micro markets and vending management systems (VMS), to improve profits. In many areas the economy was improving at the same time, which contributed to the lift in revenues operators reported for 2013. The aggregate industry revenue rose to $19.7 billion in 2013, a 2 percent increase from last year's *Automatic Merchandiser* State of the Vending Industry Report number of $19.31 billion.

Micro markets were the fastest growing addition made by operators in 2013, but investments made in other technology offerings — most notably cashless payment devices — were also significant. More operators also reported using software to adjust product mixes to increase profits and increase the time between service visits more than in previous years.

Consumer sensitivity to price point remains a struggle for many operators, especially as product costs are increasing, most notably in the candy category. Many reported reducing SKUs of more expensive candy in favor of bagged snacks in order to keep prices the same at the point of sale. In some areas of the country, the economy remains lethargic and the operators are still struggling with layoffs and declining same store sales. Revenues in the Northeast and Midwest are the most sluggish compared to the previous year.

Growth in overall foodservice sales slowed in 2013, while vending increased, shrinking the gap that has existed for the last several years. Technomic, a food research firm, reported the total growth for restaurants and bars for 2013 to be

CHART 3: MACHINES BY LOCATION, 4-YEAR REVIEW

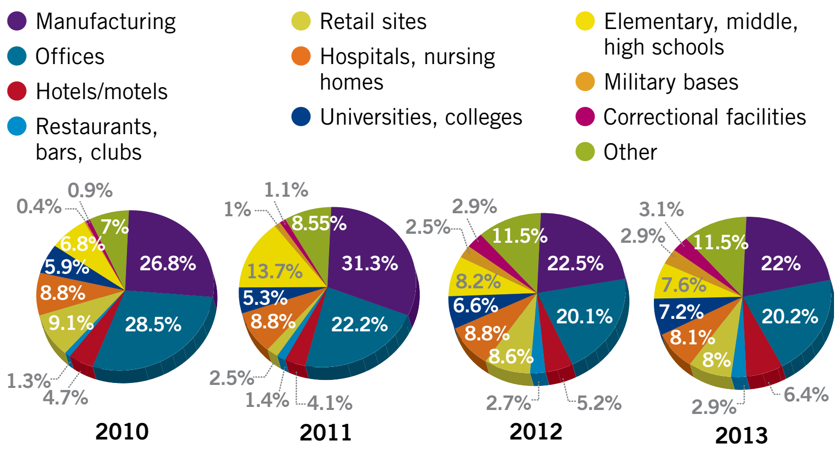


CHART 4A: STAFFING CHANGES, 4-YEAR REVIEW

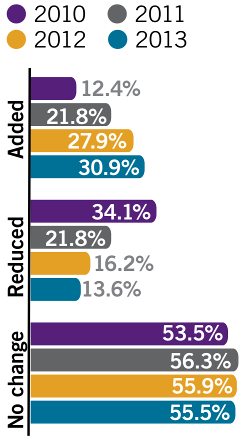


CHART 4B: AREAS WHERE STAFF WAS ADDED, 4-YEAR REVIEW

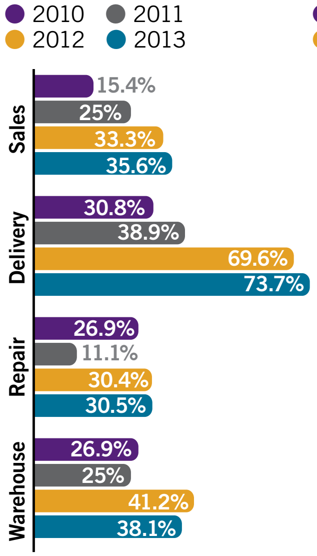
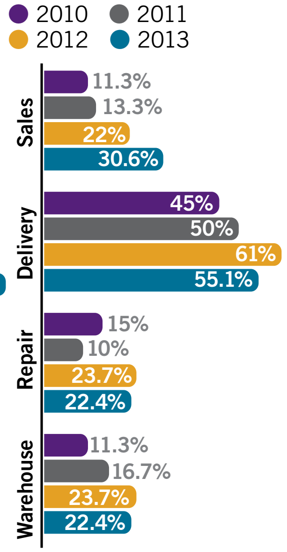


CHART 4C: AREAS WHERE STAFF WAS REDUCED, 4-YEAR REVIEW



3.0 percent. The vending industry revenue growth of 2.0 percent still trails that of foodservice, but only by 1 percent, rather than the more than 2.5 percent of the 2012 report. Technomic also reports convenience stores showed a 2.5 percent growth, similar to that seen in vending.

More Medium, Extra Large Vendors

The number of small vending operators in 2013, based on revenue, shrunk over the past year as many small companies closed or were acquired by other companies. The number of operators in the medium range, with an average of 5 to 19 routes, increased the most in 2013 as did the number of extra-large operators, in large part due to the acquisitions.

In chart 2, the projected sales for 2013 for each size operator is significantly different than in previous years. *Automatic Merchandiser* used a different system for calculating projected sales in this year's report taking into account multiple factors including number of routes, employees, reported revenue and revenue percentages from the prior year. This latest data shows that more than a third of the overall industry revenue is brought in by small- and medium-sized operations.

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

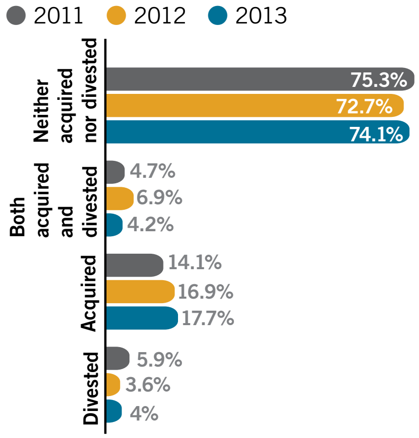


CHART 6: STRATEGIES FOR HANDLING HIGHER COSTS, 3-YEAR REVIEW

PRODUCT	2011	2012*	2013*
Raised prices	18.30%	83.10%	80.6%
Absorbed extra cost	14.18	62.3	58.8
Eliminated unprofitable account	7.99	47.3	45.7
Rearranged routes	11.86	46.2	39.4
Reduced service frequency	10.31	42.1	35.4
Lowered commissions	6.96	33.1	29.7
Rearranged job responsibilities	4.12	22.4	15.7
Reduced equipment in accounts	4.64	22.4	14.7
Switched to using more cost-efficient vehicles	2.06	14.5	14.2
Postponed parts or equipment buys	6.96	19.7	12.1
Reduced product variety	3.35	10.7	7.6
Reduced company travel	2.84	12.8	7.3
Adjusted compensation/benefits	3.35	7.7	5.8
Postponed equipment repairs	3.09	4.9	3.1

** Includes multiple mentions*

Drivers wanted

More than half of vending operators reported making no personnel changes in 2013. However, for those operators that did, the most additions or reductions were seen in delivery personnel (chart 4).

There were also an increasing number of acquisitions in 2013 as operators decided to sell their businesses (chart 5). Many smaller operators decided to retire or couldn't compete with the larger companies in their areas.

Location make-up unchanged

The types of locations the vending industry services has remained fairly steady for the last decade. In 2013, operators reported manufacturing and offices to account for a little over 40 percent of the locations served. To make up the difference, operators are turning to other types of locations. Operators are still servicing public venues or small businesses frequented by the public, shown in chart 3 in the other category. Operators cite dance schools, day cares, auto dealerships, casinos, parks and government buildings in the other category.

Interestingly, elementary and middle school locations, as a percentage of sales, showed only a slight decrease in 2013. With the new U.S. Department of Agriculture Smart Snacks In School restrictions to take effect this summer, we expect to see movement in this category next year.

The extremely cold winter had mixed effects on operators. Some reported increased sales of coffee and snacks as employees chose not to leave the workplace. However, in areas where vending operations were forced to close due to weather, it had negative effects. Spoilage rates increased and operators saw less traffic and fewer transactions resulting in lower sales.

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

PRODUCT	2011	2012*	2013*
Candy/snacks/ confections	28.03%	87.60%	89.7%
OCS	11.72	46.3	36.7
Ice cream	6.28	20.8	17.2
Sundries/ toiletries	2.09	6.8	8.8
Milk	7.53	19.6	18.8
Vended food	10.46	42.9	39.2
Bulk vending	0	1.9	3.4
Hot beverages	5.44	26.4	18.2
Condoms	1.26	0.3	1.3
Bottled water (not single-serve)	2.09	8.7	12.5
Music	0	0.3	1.3
Cooperative service vending	0	0.9	0.3
Cigarettes	1.26	3.1	2.2
Cold drinks	21.76	52.5	63.9
Manual foodservice	1.26	6.2	7.5
Other	N/A	2.5	1.6

** Includes multiple mentions*

Price point balancing act

Cost of goods continues to be a significant challenge for many operators. Increasing prices continues to be the strategy used most often to handle increased costs. However, in some areas, competition is reported to undercut price increases. Also, in some product categories, costs rose faster than vendors could change machine prices. Both of these led more than half of operators to absorb the extra costs in 2013 (chart 6).

From operator comments, a combination strategy of reducing service frequency, rearranging routes and eliminating unprofitable accounts was the most effective strategy. Many added that they were using sales data to extend the time between service trips, increasing best sellers and eliminating slow moving products.

More data used to increase profits

Vending operators reported using technology to an unprecedented degree in 2013. While much of it was adding back-end systems to increase efficiencies in merchandising, there were also additions in warehouse equipment such as picking systems and prekitting. Also systems that address delivery schedules, such as remote machine monitoring showed some increase, see chart 10A.

A number of operators said that because economy and competitive pressures remained the same in 2013, technology innovations in logistics and merchandising is what kept them profitable. Technology was cited above all else as a way operators can make educated decisions based on multiple factors that led to rethinking everything from route scheduling to accountability. It has caused many to feel positive about 2014 and beyond.

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

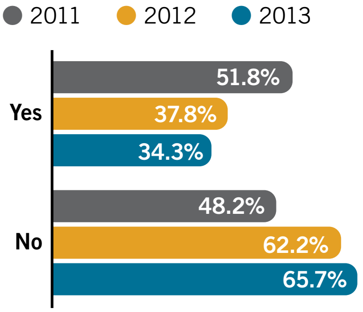


CHART 8B: FOR THOSE WHO REDUCED PRODUCT VARIETY, REDUCED IN THE FOLLOWING AREAS, 3-YEAR REVIEW:

PRODUCT	2011	2012	2013
Candy/ snacks/ confections	33.8%	78.2%	74.4%
OCS	8.45	13.7	10.1
Ice cream	2.82	11.3	9.3
Vended food	9.86	19.4	25.6
Hot beverage	1.41	4	3.9
Cold drinks	18.31	36.3	35.7
Sundries/ toiletries	0	1.6	2.3
Bottled water (not single serve)	0	3.2	7
Milk	1.41	1.6	5.4
Other	N/A	2.4	4.7

** Includes multiple mentions*

In addition, operators also recognized the need for cashless payment systems to a greater degree in 2013. According to our survey, there are an estimated 10 percent of vending machines that accept credit or debit

CHART 9A: EXPANDED INTO NEW SERVICES, 4-YEAR REVIEW

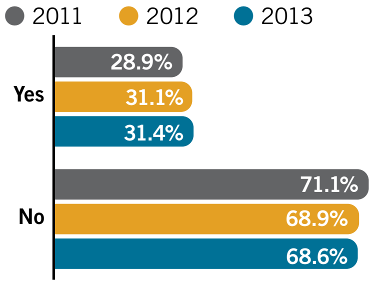


CHART 9B: IF YES, WHICH SERVICES?

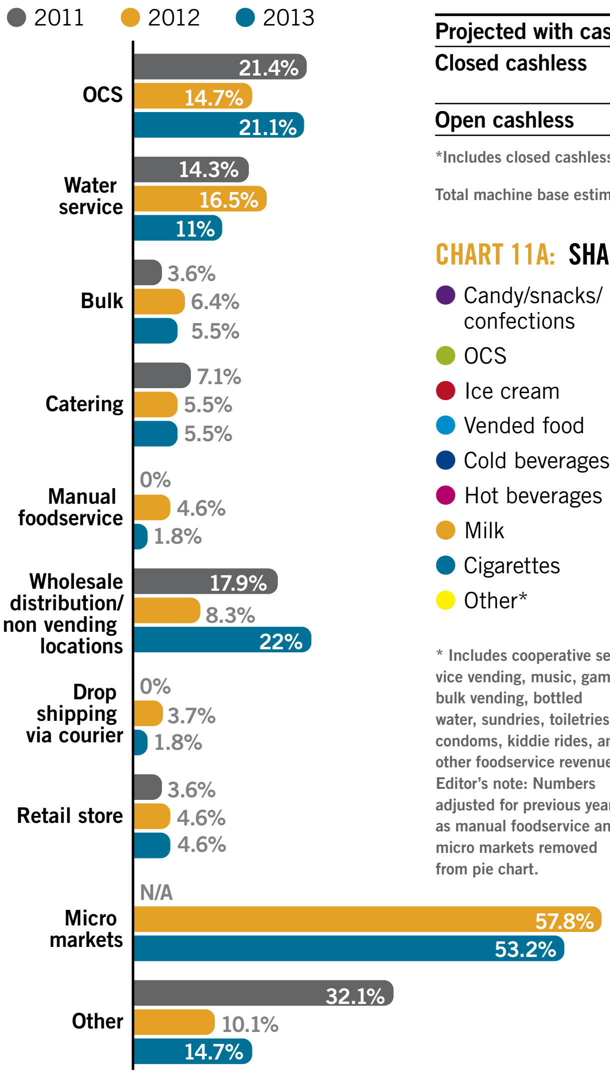


CHART 10A: TECHNOLOGY UPGRADES, 4-YEAR COMPARISON*

	2010	2011	2012	2013
Installed bill recyclers	26%	29%	29.6%	37.4%
% of machines equipped with bill recyclers	–	–	–	2
Added remote monitoring (wireless)	12	14	22	24
% of machine equipped with remote monitoring	–	–	1.65	2.04
Installed credit/Debit card readers	–	–	–	54.8
% of machines equipped with cashless readers*	3.5	4	7.03	10
Added video screens	0	0.1	1.08	11.3
% of machine equipped with video screens	–	–	0.23	.74
Added two-in-one screen device	–	–	–	3.9
% of machine equipped with two-in-one screen device	–	–	–	.46
Added micro markets	2	5	15.8	24
% of operation that is micro markets	–	–	1.8	4.3

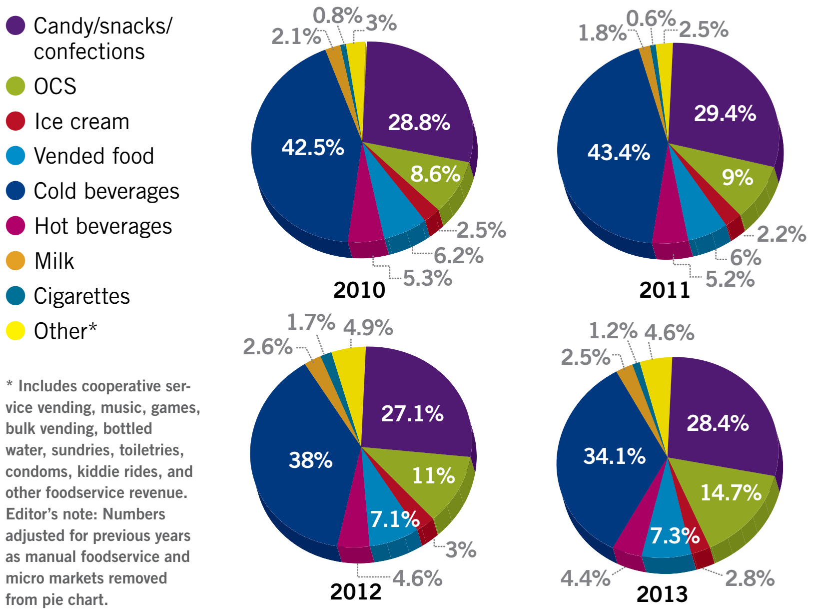
CHART 10B: CASHLESS PROJECTIONS, 4-YEAR REVIEW

	2010	2011	2012	2013
Projected with cashless	189,842	199,955	374,472	485,000
Closed cashless	32,270 (17%)	31,993 (16%)	44,936 (12%)	16,490 (3.4%)
Open cashless	157,554	167,962	329,536	468,510

*Includes closed cashless systems and bottler-operated machines

Total machine base estimates: 5 million for 2012; 4.85 million for 2013

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



* Includes cooperative service vending, music, games, bulk vending, bottled water, sundries, toiletries, condoms, kiddie rides, and other foodservice revenue. Editor's note: Numbers adjusted for previous years as manual foodservice and micro markets removed from pie chart.

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

	2010	2011	2012	2013
Micro markets	N/A	N/A	1.8%	5.11%
Manual foodservice	28	28.4	17.2	11.8

cards. Closed systems are shrinking as most work-age consumers have traditional credit or debit cards available.

Micro markets see huge growth

Micro markets sustained their growth in 2013, with 24 percent of operators adding them, up from 15.8 percent the year before. Many operators report not only increased sales, but as more locations learn about this new unattended retail opportunity, they are asking for it. In requests for proposals, some locations demand to see the operator's current micro market locations. Operators need to add this to their service in order to remain competitive. A few operators even claimed that in the coming year, they plan to divest their vending and strictly do micro markets.

Micro markets contributed to the reduction of the total number of vending machines placed at locations. Operators also reported removing unprofitable machines at various locations after reviewing sales data.

The use of other point-of-sale technology grew in 2013 as well. More operators reported trying some type of video screens than in the past, 11 percent compared to 1 percent, although the number of installed devices still remains under 1 percent (chart 10). When asked why operators made a video screen addition, most responded that it met multiple needs. Operators were focused on calorie disclosure, cashless acceptance and giving the end-user a more rewarding experience, encouraging repeat business.

Product segment review

Projected sales for the vending **cold beverage** category contracted in 2013, seen in chart 12, more so than in the overall foodservice beverage market. Preliminary data from the Beverage Marketing Corp. indicates the U.S. liquid refreshment beverage market stayed essentially unchanged in size in 2013. Its flatness followed three

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

	2010	2011	2012	2013	% CHANGE
Cold beverages	$5.97B	$8.23B	$7.34B	$6.72B	-8.52%
Candy/snacks/ confections	4.04	5.57	5.22	5.60	7.22
OCS	1.21	1.7	2.14	2.89	34.86
Vend food	0.87	1.14	1.38	1.44	4.88
Hot beverages	0.75	0.99	0.89	0.86	-3.50
Milk	0.29	0.34	0.49	0.49	-1.18
Ice cream/frozen	0.35	0.42	0.59	0.55	-6.73
Cigarettes	0.12	0.11	0.33	0.24	-28.82
Other	0.42	0.47	0.94	0.91	-2.82
Manual foodservice	5.39	5.38	3.33	2.32	-30.09
Micro Markets	N/A	N/A	0.35	1.01	189.62

** Numbers adjusted for previous years as manual foodservice and micro markets removed from product category totals.*

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

BOTTLER OWNED				
TYPE	2010	2011	2012	2013
Bottle and can closed front	2,300,000	2,280,000	2,291,400	1,919,700
Glassfront	200,000	210,000	211,050	200,000
Cup	0	0	0	0
TOTAL	2,500,000	2,490,000	2,502,450	2,119,700

VENDOR OWNED				
TYPE	2010	2011	2012	2013
Bottle and can closed front	972,000	972,000	976,860	902,500
Glassfront	30,000	35,000	35,175	35,000
Cup	6,000	4,000	4,000	4,500
TOTAL	1,008,000	1,011,000	1,016,035	942,000

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

% OF SALES				
TYPE	2010	2011	2012	2013
Can	29%	29%	42.15%	42.04%
Bottle	70.8	70.7	55.13	55.48
Cup	0.2	0.3	3.35	2.41

PROJECTED TOTALS IN BILLIONS				
TYPE	2010	2011	2012	2013
Can	$1.7B	$1.704B	$2.352B	$2.63B
Bottle	4.11	4.155	3.076	3.83
Cup	0.017	0.017	0.187	0.26

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

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

TYPE	2010	2011	2012	2013
Can	73¢	76¢	76¢	81¢
Bottle	$1.30	$1.32	$1.33	$1.33
Cup	70¢	70¢	71¢	85¢

years of growth. Niche categories continued to outperform traditional mass–market categories. BMC report continues premium beverages such as energy drinks and ready–to–drink (RTD) coffee advanced particularly forcefully during 2013. Aggressive pricing contributed to the sizeable increase in bottled water volume. Larger, more established segments, such as carbonated soft drinks and fruit beverages, failed to show growth.

In the vending cold beverage category, operators struggled with increasing product costs and meeting rebate program requirements. This caused them to raise prices,

SOME *operators report looking to be micro market only in future*

(chart 7), and reduce product variety in (chart 8B).

Many operators reporting replacing bottles with cans to maintain their current price points without further eroding margins, (chart 13).

In 2013, vending operators reported **fewer candy sales** due to price increases and reducing candy selections in machines. What drove the percent of revenue increase in the candy, snack and confection was **snacks and baked goods**, which showed healthy growth in multiple subcategories, see chart 14B. Operators reported replacing many candy selections with less expensive snack options as a way to deal with higher costs of goods. It was also where operators were most likely to raise prices (chart 7).

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

	2010	2011	2012	2013
Projected Total	1,315,000	1,315,000	1,328,150	1,290,000

CHART 14B: TOTALS BY CATEGORY AND SUBCATEGORY IN BILLIONS

	2013 PROJECTED REVENUE	% SALES OF TOTAL	SHARE CHANGE FROM 2012	% SALES CHANGES 2013: REVENUE CHANGE	% SALES CHANGES 2013: UNIT CHANGE
CANDY	$1.04B	18.58%	13.60%	-0.3%	-0.7%
Chocolate candy	0.76	13.54	10.38	-1.9	-2.1
Gum	0.05	0.82	0.60	0.1	-2.2
Mint/hard roll	0.02	0.31	0.25	-4.6	-6.2
Non-chocolate	0.22	3.91	2.46	5.9	5.8
SNACKS	$2.32B	41.48%	26.05%	6.3%	5.5%
Total nutrition snacks	0.97	17.25%	-14.33	2.0	1.5%
Breakfast bars, cereal, fruit snacks, functional bars, nutritional pretzels, granola bars, rice cakes, trail mix					
Baked goods	0.71	12.73	7.76	7.6	7.5
Cakes/brownies, cereal snacks, crème-filled cake, Danish, donuts/gems, honey buns, misc. (Poptarts), muffins, pies, regular cookies, sandwich cookies, sweet rolls, unfilled cakes					
Crackers	0.19	3.37	2.31	3.0	2.2
Regular crackers	0.13	2.33	1.42	7.1	7.8
Sandwich crackers	0.06	1.05	0.87	-5.2	-6.8
Food snacks	0.05	0.87	0.57	4.5	-3.2
Meat snacks	0.05	0.82	0.54	4.3	-4.0
Meat and cheese	0.00	0.04	0.02	9.7	10.0
Nuts and seeds	0.05	0.90	0.52	10.2	7.4
Almonds, cashews, mixed nuts, peanuts, pistachio nuts, pumpkin seeds, sunflower seeds					
Salty snacks	1.22	21.86	13.75	6.4	5.5
Cheese curls, corn/tortilla chips, onion rings, popcorn, potato chips, potato sticks, pretzels, snack mix, misc.					

Source: Management Science Associates (MSA).

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

2010	245
2011	152
2012	157
2013	126

Source: Management Science Associates (MSA).

OCS in, vended hot beverage flat

OCS experienced sales growth in 2013 as operators used it to help offset flat or declining vending sales. More than 21 percent of operators added OCS service in 2013, see chart 9B. It accounts for 14.66 percent of share of sales. The growth of OCS comes even as vended hot beverage struggles to gain, instead shrinking somewhat in 2013 as a percentage of sales. Regular coffee continues to be the strongest vended hot beverage type, but specialty and flavored coffees are gaining sales (chart 15B). Cappuccino is regulatory written in as the most successful vended hot beverage item under "other" by operators, which also gained in 2013.

Interestingly, vended hot beverage prices have dropped. Presumably, this has happened as more locations prefer OCS. The competition has forced lower prices at machines.

Vended food is flat

Vended food, which increased somewhat in 2012 has stalled in 2013.

Operators report that its percentage of sales is around 7 percent, mostly made up of frozen, pre-packaged items — a long standing trend. However, shelf stable products increased to more than 20 percent in 2013, as a percentage of sales (chart 16B). Operators did this to help with margins and lower spoilage rates.

Ice cream and milk continue to struggle, representing less than 3 percent of vending share of sales each in 2013, according to operators.

Healthy vending products

While the *AM* State of the Vending Industry report does not specifically break out healthy vending products, there is an increasing demand for these among both consumers and operators. Vendors reported that healthy food attributed as much as a 25 percent upswing in sales. At the same time, operators report struggling to find product within the desired price point, taste profile and stale date. Operators are only starting to understand the opportunity and the path for executing against the opportunity of healthy vending products.

It will require developing new, low-cost distribution platforms which support delivery of fresh healthy products as well as a robust data aggregation system to understand consumer behavior.

Vending is changing

It's clear that operators in areas where the economy is recovering are able to advance. They have added vending management systems, remote machine monitoring and micro markets. They are using the data to find the best balance between service and product variety per location. Operators are analyzing sales data and determining best sellers and eliminating slow sellers as well as the sales data for new products. They are using reports to find the best new products to replace items that have increased in price so much consumers no longer buy them. These processes, which help vendors adjust to the changing tastes of the consumer and fluctuating commodity costs, are only possible with the addition of technology.

Micro markets remain the shining star for operators as we look to 2014. Many stated micro markets

CHART 15A: HOT BEVERAGE MACHINE ESTIMATES, 4-YEAR REVIEW

2010	2011	2012	2013
315,000	309,000	318,270	318,000

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

	2010	2011	2012	2013
Fresh-brew regular	54.90%	58.33%	38.29%	38.92%
Fresh-brew decaf	5.42	3.89	6.4	5.53
Fresh-brew specialty/flavored	7.9	5.72	11.75	11.85
Freeze-dried regular	3.1	4.54	8.57	7.01
Freeze-dried specialty	7.86	5.76	8.78	9.68
Tea	1.72	2.54	5	3.62
Hot chocolate	11.67	12.75	10.88	12.86
Soup	0.53	1.37	1.92	1.28
Other	6.75	5.06	8.37	9.3

CHART 15C: HOT BEVERAGE PROJECTED TOTALS, IN MILLIONS

	2010	2011	2012	2013
Fresh-brew regular	$411.75M	$408.31M	$281.05M	$334.71M
Fresh-brew decaf	40.5	27.23	46.98	47.56
Fresh-brew specialty/flavored	59.25	40.04	86.24	101.91
Freeze-dried regular	23.25	31.78	62.9	60.29
Freeze-dried specialty	58.5	40.32	64.45	83.25
Tea	12.9	17.78	36.7	31.13
Hot chocolate	87.53	89.25	79.86	110.60
Soup	3.99	9.59	14.09	11.01
Other	50.63	35.42	61.44	79.98

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

	2010	2011	2012	2013
Fresh-brew regular	59¢	59¢	64¢	62¢
Fresh-brew decaf	58	58	60	54
Fresh-brew specialty/flavored	65	65	69	66
Freeze-dried regular	59	57	49	37
Freeze-dried specialty	59	59	56	43
Tea	55	55	53	45
Hot chocolate	59	59	66	64
Soup	57	55	50	24

CAPPUCCINO ***is regularly written in as the most successful vended hot beverage item under "other."***

were to be their growth focus in the coming year. Some are even considering getting out of vending completely to focus solely on micro markets. It's an area expected to grow exponentially in the next few years.

Operators have yet to find ways to attract consumers to the vending machine and change the consumers' perception. Many opportunities for this are being tested, such as social media, mobile payment/coupons and digital signage including video screens that increase consumer engagement. Until the vending industry can truly get consumers to think of the machine as a destination, vendors will continue to face resistance to charging higher product prices. This is on the horizon for the next decade of vending, but until then, technology is allowing operators to regain profitability and adjust to the ever changing end user. We are over the hurdle and well on our way to a future in the black. |

CHART 16A: FOOD MACHINE ESTIMATES, 4-YEAR REVIEW

TYPE	2010	2011	2012	2013
Refrigerated	131,000	129,000	128,700	124,000
Frozen*	52,600	53,000	53,000	53,000
Ambient3	2,000	2,000	2,000	2,000
Food systems (pizza, french fries)	1,500	1,100	1,000	1,000
Total	187,100	185,000	184,700	180,000

** Most were also used for ice cream.*

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

Type	2010	2011	2012	2013
Freshly-prepared	23.76%	27.40%	29.32%	28.53%
Frozen-prepared	54.56	55.27	44.76	41.56
Shelf stable	13.79	15.6	15.91	20.66
Other*	7.87	1.6	10.26	9.25

** Non-food items in food machines*

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

Type	2010	2011	2012	2013
Freshly-prepared	$2.35	$2.40	$2.40	$1.87
Frozen-prepared	2.27	2.30	2.35	2.09
Shelf stable	1.95	2.00	2.00	1.75