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## The Magic In Selling Service

SUCCESS IN GREENVILLE, SC

For Merus Refreshment Services, Inc. being  
customer centric does the trick. page 36

  
**Micro Market  
Promo Tips**  
page 18



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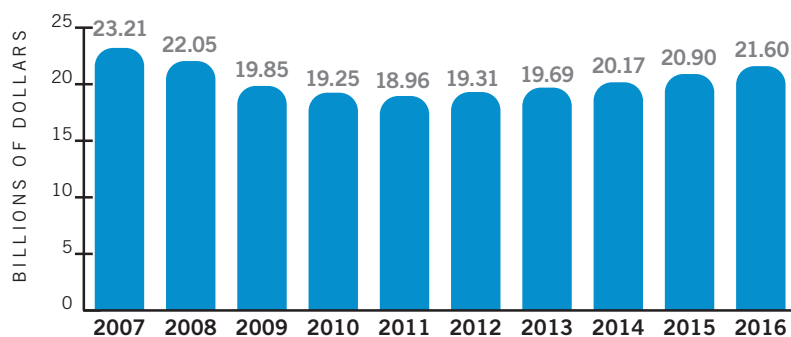
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## SUCCESS STORY OPERATION PROFILE

### 36 ▶ The Magic In Selling Service

For Merus Refreshment Services, Inc., it's not easy being an independent, OCS-only service provider, but being customer centric does the trick.



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Growing cashless acceptance and micro markets are keeping the industry healthy as consumers spend more and workplaces look to expand offerings to keep employees engaged.



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AVAILABLE ONLY AT VENDINGMARKETWATCH.COM

### BLOGS, PODCASTS & VIDEOS



#### ▶ VIDEO: OCS Trends From The 2017 NAMA OneShow

[www.vendingmarketwatch.com/12335926](http://www.vendingmarketwatch.com/12335926)

#### ▶ SPECIAL FEATURE: Teach Route Drivers To Think And Act Like Owners

[www.vendingmarketwatch.com/12341467](http://www.vendingmarketwatch.com/12341467)

#### ▶ EDITOR'S BLOG: Internal Thefts Can Hit Businesses Hard

[www.vendingmarketwatch.com/12340036](http://www.vendingmarketwatch.com/12340036)

neverthirst



#### ▶ BLOG: Marketing With A Cause

[www.vendingmarketwatch.com/12342276](http://www.vendingmarketwatch.com/12342276)



#### ▶ VIDEO: Inventory: Your Secret Weapon

[www.vendingmarketwatch.com/12337823](http://www.vendingmarketwatch.com/12337823)

### SPECIAL REPORT

#### 3 Ways Vending Can Compete With Other Channels

[www.vendingmarketwatch.com/12341957](http://www.vendingmarketwatch.com/12341957)



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# Automatic

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Source: NACS State of the Industry  
Annual Report, 2015 data

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know that nothing is being hidden.



Source: Packaging Research, proprietary quantitative research, APF, 2016



Across all demographics,  
**Taste and Freshness**  
are the **#1 and #2 criteria**  
for purchasing a sandwich

Source: Usage and Barriers Study, proprietary  
quantitative research, APF

# Drivers Can Be More Than Vending Machine Fillers

Investment in technology empowers operators to better run their businesses, but doesn't replace the need for valued (and skilled) employees.

**I**n a previous editor's note, I argued the importance of technology. Once an operation reaches a certain size, it's very difficult for an owner to know what's going on in every department and manage effectively. It means trusting employees and supervisors. It means relying on your team and sometimes opening yourself up to inefficiencies or in the worst cases, internal theft. However, technologies such as telemetry and handhelds/iPads used along with vend-

ing management systems changed that. One operator of my acquaintance said getting a VMS was like being back in the driver's seat, despite having a multi-million dollar operation. I find many people share this idea, and it changes the dynamic of the organization. However, in talking to Ron Cichy, a professor at The School Of Hospitality at Michigan State University, all this talk about technology might be leading use into a less rosy direction.

## Heralding the route drivers

Cichy is passionate about route drivers. If you've

spoken to him or read his blogs on vendingmarketwatch.com, you'll have picked up on this. He feels that route drivers fall at the low end of the employee appreciation scale. An observation supported by the lack of support for legacy route driver sponsored contests and editorial. Cichy argues that route drivers are the people who engage with clients and ensure the level of service at each location when the owner can't be there. That means they should be valued as

talent, not as manual labor. Perhaps operators think they do appreciate their route drivers sufficiently. However, Cichy quoted a survey to me that out of 7,700 U.S. employers and 147,000 U.S. employees, 64 percent of the employers say their employees feel appreciated, yet only 45 percent of employees say that they feel appreciated at work.

## Measuring ROI of appreciation

At this point you're hopefully considering your own employee appreciation programs and wondering how engaged your drivers are. Perhaps you're even wondering if it is really all that important. According to Emplify, a company that specializes in employee engagement, there are a number of direct and tangible benefits to organizations who invest in their employees. They cite compelling statistics from consulting firms and research papers such as that companies with engaged employees report 2.5 times more revenue than competitors with low engagement levels. Another statistic is that businesses with engaged employees outperform those without by 202 percent. Workers in the top 1 percent in terms of productivity add about \$5,000 to profit per year, while a toxic worker costs about \$12,000 per year. It's estimated that American businesses lose an average of \$500 + billion annually because of "disengaged" workers.

## Technology investment still important

Perhaps it's time to reconsider the importance of the route driver. While I am a strong proponent of being in the driver's seat of your company's operations by investing in technology, there is no denying the power employees can have on your bottom line. By increasing training and making employees feel proud, empowered and valued (the same goals our location customers have), it can have a positive impact on sales and also elevate the perception of the entire industry. | ◀



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## NAMA Plans October Executive Development Program

**T**he NAMA Executive Development Program (EDP) is designed for senior-level leaders in the convenience services industry: key decision-makers in areas of finance, marketing, operations and human resource management. The organization has announced the next EDP event will take place at Michigan State University from October 22 to 26.

The program will again include renowned professors exploring a diverse set of topics from leadership to negotiation strategies, but there will be a new session this year as well.

### Supply chain session added

New in 2017 is a hands-on Supply Chain session with a tour of MSU's Procurement Center. Attendees will get a behind-the-scenes look at how MSU has upgraded and changed the way they distribute goods from all of their vendors across campus. Attendees will gain insight into MSU's best practices around these changes.

The NAMA Foundation makes scholarships available to attend the EDP. Find out more at [www.namanow.org/education-2/msu-executive-development-program](http://www.namanow.org/education-2/msu-executive-development-program).



NAMA announces this October for the next industry-specific senior management training.

Five Star Food Service, a progressive full-service vending, micro markets, office refreshment services and corporate dining company. The strategic deployment of USAT's technology across Five Star's markets is actively leveraging USAT's Premium Services program for rapid deployment that optimizes operational efficiencies and creates a tailored cashless payment and engagement program.



## Seaga Enters Smart Inventory Control Market

► Seaga adds value to its large item venders through its IIC division with the IIC Guardian. The IIC Guardian expands the successful IIC system to include greater product security, flexibility and talent to vending large items. With check-in/check-out capabilities and a robust cloud-based software package that is completely integrated with reporting features, the Guardian provides the clear and conclusive accounting of supply usage enabling the precise forecasting and reduction of inventory levels by 50 percent or more.

## Accent Food Services Breaks Ground On New Headquarters

► Accent Food Services broke ground on a new corporate headquarters facility in Pflugerville, TX. Accent Food Services is expected to invest at least \$4 million during the five-year agreement term to build a new 55,000-square-foot office, warehouse and distribution center. The company also plans to relocate 85 full-time employees from its current headquarters by December 2018 and add five employ-

ees every year beginning in 2018 through 2022.



## PayRange Patent Lets Users See Refunds

► PayRange Inc. has been issued a U.S. patent for technology that sends machine events to a mobile device to notify users of

the status of the transaction. This is particularly useful to communicate with consumers when an error has occurred during their purchase. Additional frustrations are avoided when they are automatically informed in real-time of a credit being applied.

## USAT, Five Star Food Services Announce Landmark Deal

► USA Technologies, Inc. announced a landmark strategic agreement with

## The Coca-Cola Co. Nears Completion Of U.S. Refranchising

► The Coca-Cola Company is moving closer to completing the refranchising of its

company-owned territories in the U.S., thanks to a new letter of intent involving a significant area of the Northeast.

Coca-Cola Refreshments executives Paul Mulligan and Fran McGorry are joining together to form a new bottling company called Liberty Coca-Cola Beverages LLC. They have signed a letter of intent for territories that include metropolitan New York, Philadelphia, most of the state of New Jersey and part of Delaware, plus four production facilities. This area is known as the Tri-State Metro Operating Unit of Coca-Cola Refreshments, which is a unit of The Coca-Cola Company.



## Possible Blind Vending Revamp In Oregon

► The Oregon House unanimously cleared a bill that will revamp the state's vending machine program to increase jobs and business opportunities for blind people while also encouraging healthier snacks, reports *The Lund Report*. Currently, Oregon's blind vending program only gives blind vendors preference for food and vending contracts on public property, not priority, and it has only 14 blind vendors. The bill, which now goes to the state Senate, would give first priority to blind business owners and require vending machine

operators to pay fees to the Commission for the Blind.



## Antique Coffee & Vending Rebrands As 'BrewSmart Beverage'

► Antique Coffee & Vending has come a long way since its humble beginnings out of an Arlington Heights, IL, garage nearly 50 years ago. Founded by Kurt E. Unter, the company has become an established industry leader that services customers in fourteen states and consistently sets industry performance standards. The company is now under the leadership of Unter's son, Scott E. Unter who has become president. Along with the new leadership, the operation is also getting a new name and brand. As of June 1, 2017, Antique Coffee became known as BrewSmart Beverage.

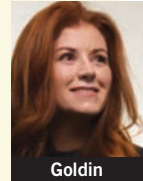
## Massachusetts Considers State Soda Tax

► *MassLive.com* reports that a proposed bill in Massachusetts would tax drinks between five to 19 ounces that contain five or more grams of sugar. Drinks would be taxed at one cent per ounce and a drink with 20 or more grams of added sugar would be taxed at two cents per ounce. The Massachusetts Beverage Association opposes the bill, stating that the tax does not address the real causes of obesity and related conditions.

## People in the News

### EY Announces Kara Goldin, hint® Founder As An Entrepreneur Of The Year®

EY announced that Kara Goldin, hint® Founder and CEO, is a finalist for the Entrepreneur Of The Year® 2017 Award in Northern California.



Goldin

### Veteran Designer David Pierson Joins Seaga As Lead Graphic Designer

Vending machine manufacturer Seaga, with headquarters in Freeport, Ill., taps local veteran graphic artist David Pierson, who has virtually two decades of experience in graphic design.



Pierson



### Robert And Jo Ann Crawley Hold Ribbon Cutting For Robert's Coffee & Vending's 30th Anniversary

Robert's Coffee & Vending Services celebrated its 30th anniversary at its headquarters in Longview, TX. Owners Robert and Jo Ann Crawley started the business in 1988 with \$300 and a \$2,000 bank loan. Since then, the company has grown into a new office, four warehouses and a service area from Nacogdoches/Lufkin to Hope, AK.

### Bob Tullio Launches 'Strategic Management' Online Column In July

A 37-year veteran of the industry, Bob Tullio has been the former director of business development for World Wide Vending, Gourmet Coffee Service and Venue Fresh Markets. He is now launching a 'Strategic Management' column to appear on VendingMarketWatch.com starting July 10.



Tullio

# Minnesota Governor Signs Bill Providing Operators Tax Parity

**O**n May 31, 2017, Minnesota Governor Mark Dayton signed a budget bill that included tax parity for vending operators in the state. Members of the Minnesota Automatic Merchandising Council (MAMC) and NAMA have worked diligently over the last two years on this legislation.

The new law remedies an inequity in Minnesota tax law regarding the taxation of items sold through vending machines. It extends the existing tax exemption on the sale of food products to vending operators and makes it applicable to all retail locations in an equitable manner. Food products that are exempt from taxation when sold in grocery stores, convenience stores and catering trucks will now be exempt when sold through vending machines.

## A big win

MAMC President Steve Marx, shared his positive view of the legislation in a prepared statement. "This change in the law will place vending operators in the same position as other retailers and they will not be forced to either absorb the sales tax or pass it on to consumers. This is a big win for the industry and our consumers," Marx concluded.



MAMC began working on this bill in 2016 that would eventually gain operators the same tax exemptions as other retailer outlets.

increase of 8.3 percent to \$4.2 billion; and a gross profit increase of 8.4 percent to \$521.4 million. Operating expenses increased to 7.1 percent to \$474.7 million and net income increased 121.3 percent to \$20.8 million.



## PepsiCo Launches Limited Ed. Pepsi Fire

► This summer, PepsiCo is introducing a new limited edition flavor, Pepsi Fire — the same refreshing cola with a cinnamon flavored twist. It will be available nationwide for an eight-week period and be part of the marketing "Snap-Unlock-Win" program.



## Avanti Markets Takes Lead In Combatting Cyber, Payments Fraud

► Avanti Markets Inc. is taking the lead in the ongoing battle against cyber and payments fraud. Staying one step ahead of this burgeoning threat, Avanti Markets announces technology advances that include a cyber insurance policy that covers all Avanti Markets operators up to \$10,000,000 and deployment of Ingenico Group's iUC285, an all-in-one contact and contactless stand-alone payment acceptance device.

### CALENDAR OF EVENTS

#### JUNE 22-25

**Kentucky Automatic Merchandising Council Meeting**  
Dale Hollow State Park,  
Burkesville, KY  
[www.kyvending.org](http://www.kyvending.org)  
Phone: 513-608-0165

#### JULY 25-26

**NAMA 2017 Fly-In**  
Capital Hill  
Washington, DC  
[www.namaflyin.org](http://www.namaflyin.org)

#### AUG 15-17

**SEVA 2017**  
Hilton Sandestin Beach Golf  
Resort & Spa  
Miramar Beach, FL  
<http://southeasternvending.org>

#### SEP 28-30

**Texas Merchandise Vending Association 2017**  
The Omni  
Corpus Christi, Texas  
<http://tmva.org>

#### OCT 12-14

**ACE 2017**  
Embassy Suites Hotel at Kingston  
Plantation  
Myrtle Beach, SC  
[www.atlanticcoastexpo.com](http://www.atlanticcoastexpo.com)

#### NOV 6-8

**2017 CoffeeTea&Water Show**  
Gaylord Texan Resort Hotel &  
Convention Center  
Grapevine, TX  
[www.coffeeteaandwater.org](http://www.coffeeteaandwater.org)



## Performance Food Group Reports Third-Quarter And First-Nine Months Fiscal 2017

► Performance Food Group Company released its report for the third quarter and first nine months of fiscal 2017. The company generated strong case and earnings growth and reaffirms fiscal 2017. The third-quarter fiscal 2017 highlights include a total case volume increase of 7.7 percent; net sales



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Coffee is the basis of research worldwide.

# Brewing Up Health Benefits

**Studies increasingly show coffee offers more than just a jolt of energy.**

*By Brittany Farb Gruber, Associate Editor*

**T**here is plenty of good news for office coffee service providers these days. Recent studies are increasingly showing that coffee provides a variety of health benefits. From offering cancer prevention to pain management to psychological well-being, coffee is continually proving

to be a smart choice that is attracting a lot of attention from researchers around the world. While it remains important that operators don't make any healthy claims themselves, sharing the existing research via social media, newsletters, email correspondence and in blogs can be beneficial.

## Cancer prevention

Earlier this year, a study published in the *International Journal of Cancer* found that coffee may have a "protective effect" on prostate cancer risk. In an analysis of approximately 7,000 men from Italy, those who consumed more than three cups of coffee a day showed a 53 percent reduction in prostate cancer disease risk when compared to men who consumed zero to two cups of coffee. The caffeine from the coffee appeared to exert both antiproliferative and antimetastatic activity on two prostate cancer cell lines, which in turn provided a cellular confirmation for the cohort study results.

Additional studies connecting coffee with cancer protection have also been published. Researchers from the University of Southampton and the University of Edinburgh found that people who drink more



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coffee are less likely to develop hepatocellular cancer, which is the most common form of primary liver cancer. Using data from 26 studies involving more than 2.25 million participants, those who drank one cup a day had a 20 percent lower risk of developing HCC compared to people who drank no coffee. The effect was also found in decaffeinated coffee.

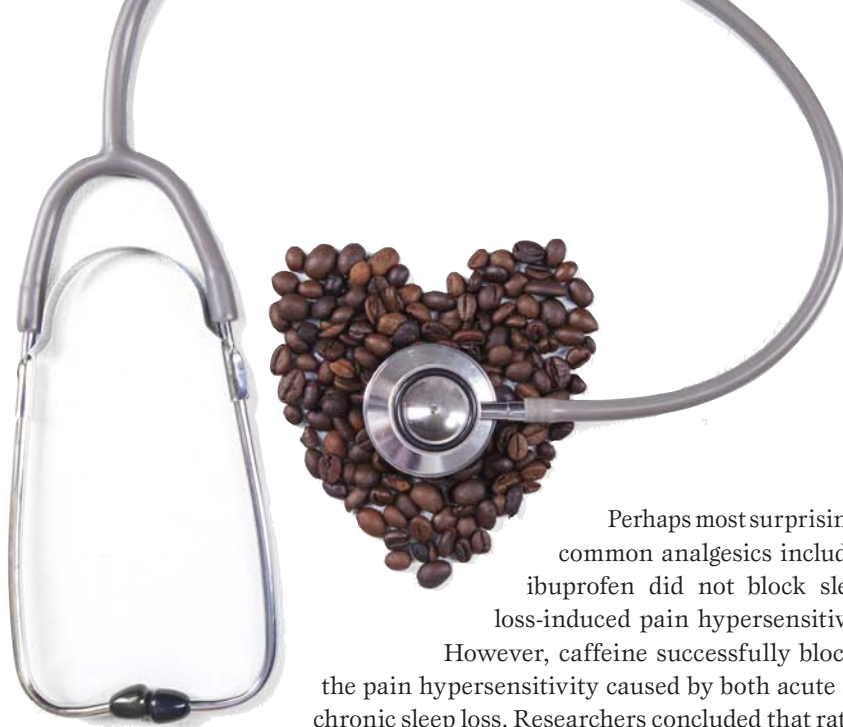
### Diabetes risk

It isn't exactly new news that coffee is linked with a reduced risk of diabetes. Previous studies have found that people who drink four or more cups of coffee a day have a 50 percent lower risk of getting the most common form of diabetes, type 2 diabetes.

However, Chinese researchers may have found out why. In a study funded by the National Basic Research Program of China and the Natural Science Foundation of China, researchers found three compounds present in coffee, caffeine, caffeic acid and chlorogenic acid, seem to block the toxic accumulation of a protein linked with an increased risk of type 2 diabetes. Caffeic acid had the greatest effect while caffeine had the least effect, suggesting that decaffeinated coffee may also reduce risk. In fact, decaffeinated coffee contains higher amounts of caffeic acid than regular caffeinated coffee.

### Chronic pain

A recent study from Boston Children's Hospital suggests that coffee may be a better treatment for chronic pain than over-the-counter pills. Scientists gave tired lab mice either painkillers, coffee or more time asleep. They found the most wide-awake mice, after consuming caffeine or waking up from a long nap, were less sensitive to pain than those given the painkillers. Specifically in the coffee-drinking mice, the scientists reported a rush of dopamine to the brain's pleasure center that alleviated feelings of pain.



**53%**  
reduction in  
prostate cancer

**50%**  
lower risk of developing  
type 2 diabetes

**50%**  
reduced risk of suicide in  
both men and women

Perhaps most surprisingly, common analgesics including ibuprofen did not block sleep-loss-induced pain hypersensitivity.

However, caffeine successfully blocked the pain hypersensitivity caused by both acute and chronic sleep loss. Researchers concluded that rather than just relying on painkillers, patients with chronic pain might benefit from better sleep habits or sleep-promoting medications at night, coupled with daytime alertness-promoting agents such as caffeine.

### Psychological wellbeing

Physical health hasn't been the only focus of wellness studies surrounding coffee. Researchers at the Harvard School of Public Health found that drinking several cups of coffee daily appears to reduce the risk of suicide in both men and women by about 50 percent. Their findings were based on data from three large U.S. studies which led them to conclude that the risk of suicide for adults who drank two to four cups of caffeinated coffee per day was about half that of those who drank decaffeinated coffee or very little or no coffee.

Researchers explained that caffeine stimulates the central nervous system and also may act as a mild antidepressant by boosting production of certain neurotransmitters in the brain, including serotonin, dopamine and noradrenaline. This effect may explain the lower risk of depression among coffee drinkers.

While the caffeine boost may still be the main reason coffee drinkers turn to their morning cup of joe, continuing research and studies around the health effects of coffee are certainly brewing up more excitement about this continually growing segment of the industry. ◀

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# The Power Of Promotions

By Brittany Farb Gruber, Associate Editor

**Micro market incentives and promotions are proving to be valuable tools for driving sales.**

**I**t isn't exactly an industry secret anymore that micro markets are growing in popularity every day. As such, operators should be mindful about how to stay competitive in the space so as not to miss out on important opportunities.

According to *Automatic Merchandiser's* most recent Operator Confidence Index, micro market placements are expected to grow by one to two markets per month per operator. With micro market installations rising by the day, it is especially important for operators to differentiate themselves from the increasingly crowded space. Incentives and promotions have proven to attract consumers and turn them into loyal, returning customers. Furthermore, these programs can help move slow-selling products to grow overall sales.

Here are several of the latest promotions and incentives that aim to

attract the number one asset of micro markets: consumers.

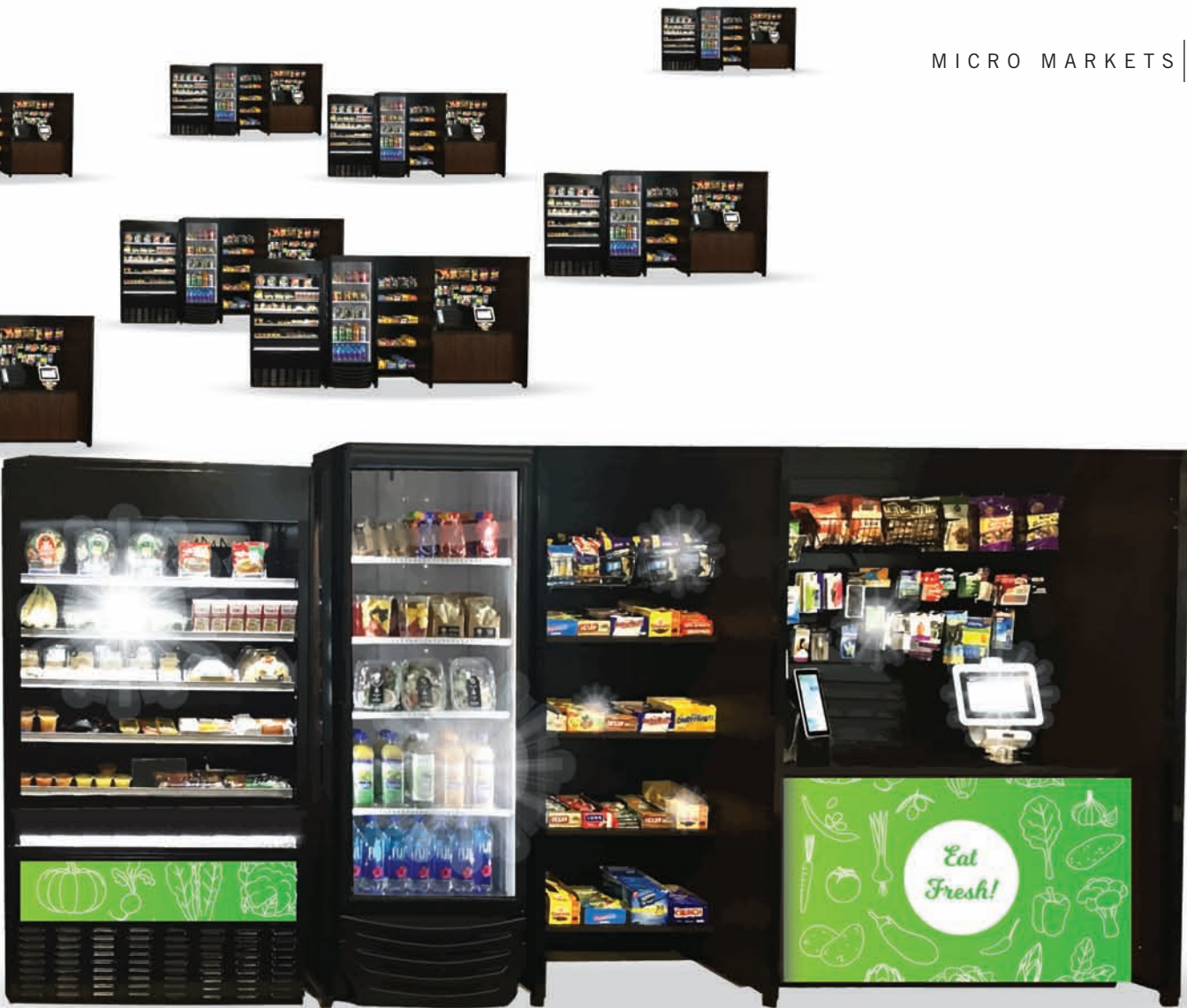
## Fun and games for Digital Checkouts

In an effort to not only attract micro market customers, but to also keep them coming back for more, Digital Checkouts has pioneered several promotions and incentives. Gamification is one of the major themes of its loyalty program that allows customers to accrue loyalty points for every purchase when logged into their market account, whether using a credit card, account balance, cash or a combination of all payment options. Operators then have the ability to set

the amount of loyalty points per dollar amount, and the customer is able to redeem their points towards purchases when they select to use their points as a payment option.

Digital Checkouts' bundle deals and sales also employ a similar game-inspired theme. Operators have the ability to set up groups of items that when purchased together automatically applies a discount for the customer. In addition, they may also select specific items and even a category of items to place on sale or as buy one/get one deals. These deals can be advertised either on the kiosk screen itself or via a customer information screen that is controlled by the operator. Operators also can create coupons for specials they would like to run. These can be sent to their customers via text message using an opt in program or they can be advertised on the kiosk or local information screen.

**IT'S crucial to stand out from the crowd.**



### Parlevel 'recharges' consumer wallets

Parlevel's Wallet Recharge Promotion has proven to drive up sales for operators. With the promotion, operators can prompt their customers to refill their digital wallets with funds by providing a percentage bonus to refilled funds. An example of a promotion would be: "Add funds to your wallet and receive an extra 10 percent on us." So a wallet user can load \$20 onto their account and get an extra \$2 for a total of \$22.

"This is beneficial to the operator because he gives an incentive to his customer base to use wallets," explained Christopher Blomquist of Parlevel. "Increased usage of wallets lowers credit card processing fees and inspires end-user to come back and use the kiosk."

Blomquist also reports that Parlevel micro market operators who offer the Wallet Refill Promotion average over \$3,500 per kiosk per month in wallet recharges and cashless sales. Additionally, 95 percent of the money in the loaded wallets actually get spent, which shows that customers are in fact inspired to use the funds in their wallet, while operators benefit from a 5 percent boost in sales without actually incurring any cost of goods sold.

### Timing is everything at The Cuyahoga Group

A play on the 12 days of Christmas, The Cuyahoga Group offered a seasonal promotion to thank customers for their patronage. Each day, The Cuyahoga Group offered a different discount with deals ranging from 25



With Parlevel's Wallet Recharge Promotion, operators can prompt customers to refill their digital wallets with funds by providing a percentage bonus to refilled funds.

cents off coffee to buy one get one free deals. Similarly during March Madness, The Cuyahoga Group created brackets with discounted items each week. These promotions, The Cuyahoga Group's Director of Operations Brian Canterbury says, resulted in a 5 percent increase in consumer participation and also a "substantial increase" in consumer participation.

"We continue to focus on promotions and refreshes to separate from competitors," Canterbury said.

Relying on a promotions calendar offers an organized tool for making sure a program is carried out, while its timeliness may help ensure a greater following by consumers. The calendar also will give operators enough time to create marketing and promotional materials to help spread the word about a particular campaign.

### Happy holidays for PayRange

Over the past holiday season, operators across 300 cities leveraged the PayRange mobile app to run a holiday sales promotion driving incremental usage during a month when sales typically slow down. Participating operators offered users a 25-cent discount when purchasing from their machines. The offer was automatically removed when the user made four purchases, or on December 31, whichever came first. There was no cost to the operator to run the promotion, other than the cost of redeemed discounts.

The PayRange Holiday Promotion acquired new users, drove existing users to the vending machines, and encouraged repeat purchase through their PayRange app.

In particular, the promotion resulted in an increase in four main areas:

**Activity:** Participating operators avoided the expected seasonal drop, which can be as much as a 38 percent decline for non-participating operators.

**Sales:** The promotion gave participating operators a 13 percent lift in their December sales.

**Spend:** New users, defined as those that did not purchase in November, spent 8 percent more.

**Repeat purchase:** 40 percent of holiday program users made four purchases or more.

"We were impressed with the word-of-mouth referrals from existing users to non-users," said Amanda Mailey, director of marketing at PayRange. "We didn't notify or promote this campaign outside of the App. Awareness came from people talking and directing each other to the machines. It's very exciting to see the impact a discount can make. We look forward to offering similar promotions in the future."

### Avanti partners with USG

With the goal of bringing "fun and exciting promotions" to the Avanti Markets Operator Network, Avanti Markets chose to partner with Unified Strategies Group (USG). As part of the partnership, Avanti Markets operators who are also USG members can opt-in to participate with the USG Promotions Program each quarter. USG aims to drive cost savings to its

Avanti Markets operators who are also USG members can opt-in to participate with the USG Promotions Program each quarter.



The Cuyahoga Group offered a seasonal promotion to thank customers for their patronage.

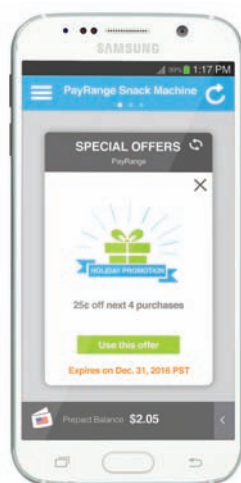
membership through rebate-based supplier programs, manufacturer volume discounts and off-invoice allowances. To its supplier partners, USG offers national scale, volume, product trials and sales performance. The program itself is customizable and includes a wide

selection of choices. This is advantageous for many reasons, including the ability for operators to pick-and-choose the promotions they'd like to extend for their markets each quarter.

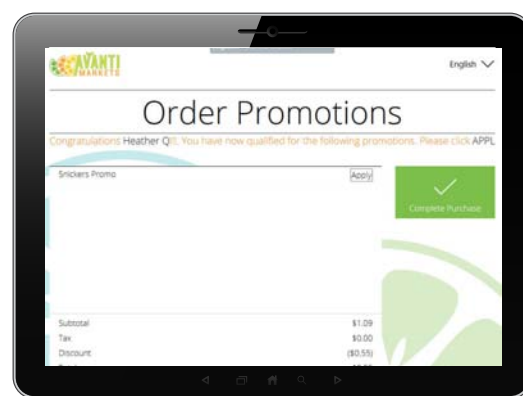
In addition, some of the other benefits the operators experience include increased product lift, customer frequency, competitive advantage and new market card users. Market users enjoy the promotions as well because the promotions can help to give the market a more personal component and provide excitement. It becomes something customers look forward to each quarter — the new promotions.

In order to enhance promotions, operators are encouraged to use display advertising. This helps to create additional awareness for the products and the current promotions running.

With micro markets becoming business as usual for operators, differentiation in the growing marketplace is key to attract new consumers and to keep them coming back. Incentives and promotions offer creative opportunities and, if done well, can be memorable to customers. | ◀



Over the past holiday season, operators leveraged the PayRange mobile app to run a holiday sales promotion during a time when sales typically slow down.



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**Vending**  
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# OPERATORS CLOSE 2016 WITH 7-YEAR HIGH OF \$21.6 BILLION

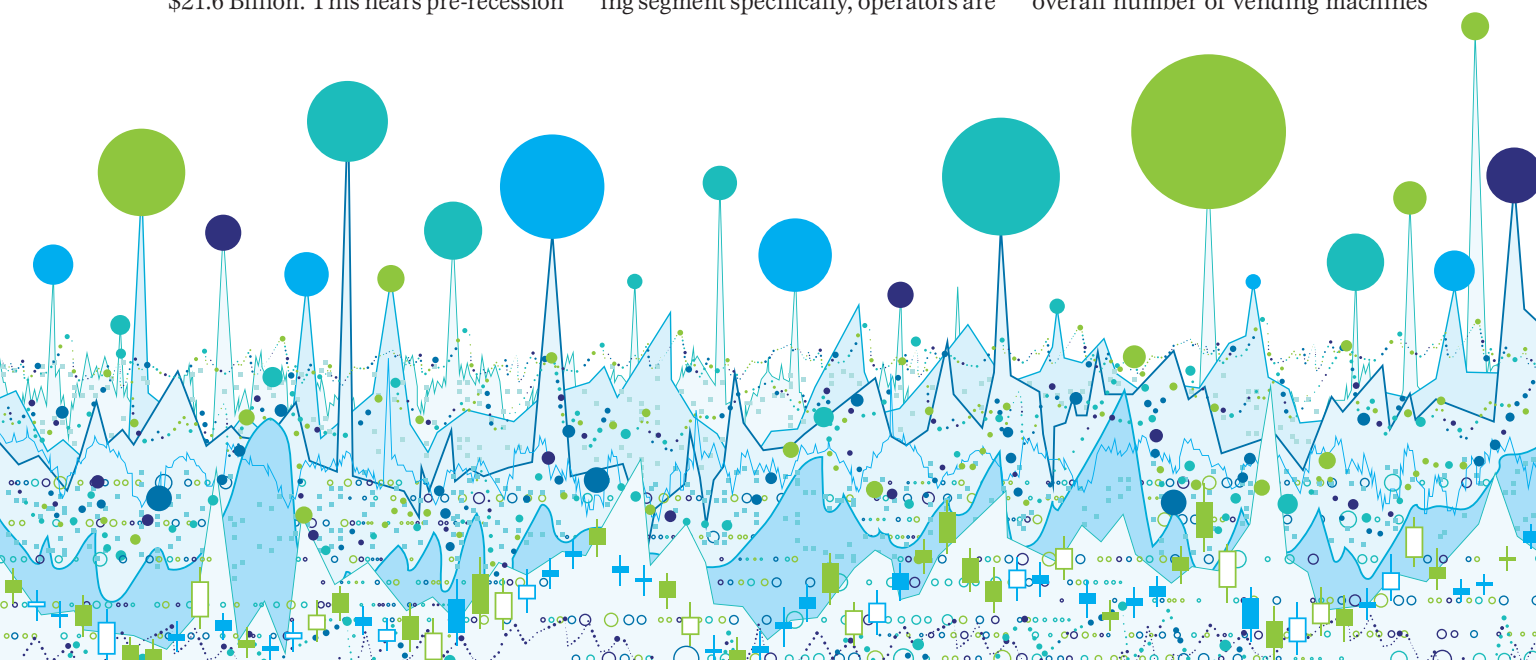
Growing cashless acceptance and micro markets, especially with fresh food, are keeping the industry healthy as consumers spend more and workplaces look to expand offerings to keep employees engaged.

*By Emily Refermat, Editor*

**T**he vending and micro markets industry saw a boost in revenues in 2016. Operators reported an average increase of 3.2 percent. Revenue totals, taking into account the different size independent operators, is calculated to be \$21.6 Billion. This nears pre-recession

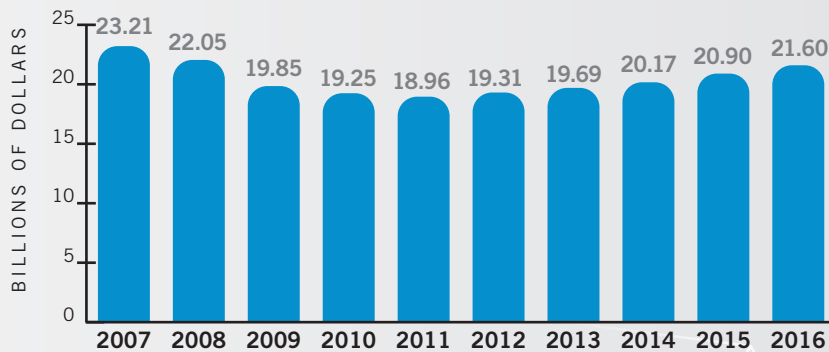
levels and is a 7-year high point. Driving the growth are external and internal forces. Externally, increases are from the strengthening economy and increased consumer spending. Internal drivers for the rise in revenue come from technology. In the vending segment specifically, operators are

making in-roads in cashless payment acceptance. What once was a crawling pace in adoption has become more mainstream with an estimated 31 percent of vending machines offering a cashless reader. This equates to more than a million vending machines. The overall number of vending machines



# STATE OF THE INDUSTRY

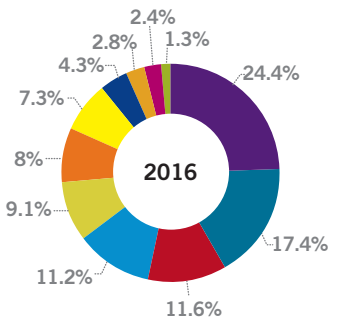
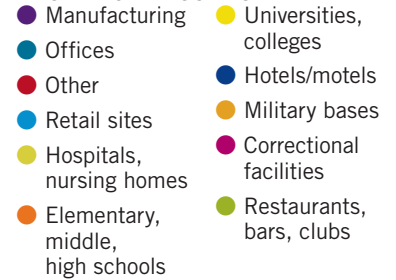
**CHART 1: INDUSTRY REVENUE IN BILLIONS, 10-YEAR REVIEW**



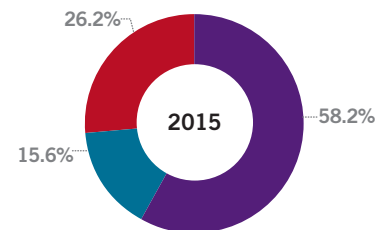
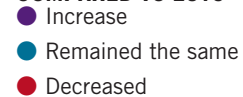
**CHART 2: OPERATOR SALES**

SIZE	REVENUE RANGE	% OF 2016 OPERATORS	PROJECTED 2015 SALES	% OF 2016 SALES
Small	under \$1M	53.3%	\$1.9B	8.8%
Medium	\$1M - \$4.9M	21.0	4.7B	21.8
Large	\$5M - \$9.9M	9.5	5.6B	25.7
Extra large	\$10M +	16.2	9.4B	43.7

**CHART 3A: MACHINES BY LOCATION**



**CHART 3B: NUMBER OF LOCATIONS SERVED IN 2016 COMPARED TO 2015**



served by independent operators appears to be dropping, according to reports from our sample, due to the rise in micro market locations. There are a record number of micro market placements with that segment of the industry continuing to expand as workplaces are more familiar with the

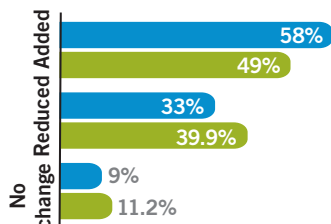
concept, employees prefer it and flexible equipment make it economical for smaller locations. Operators report the micro market segment will continue to thrive. Thanks to micro markets, but even in vending machines, fresh food is playing a larger role in revenues and enhancing break areas as well.



# STATE OF THE INDUSTRY

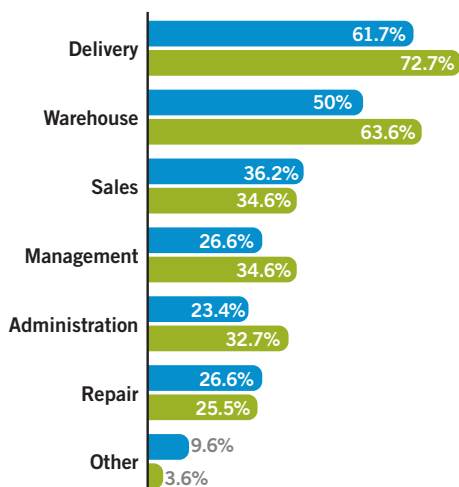
**CHART 4:**  
**STAFFING CHANGES, 2-YEAR REVIEW**

● 2015 ● 2016



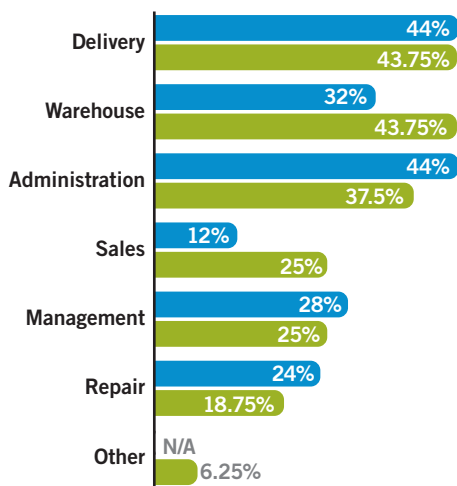
**CHART 4B:**  
**AREAS WHERE STAFF WAS ADDED, 2-YEAR REVIEW**

● 2015 ● 2016



**CHART 4C:**  
**AREAS WHERE STAFF WAS REDUCED, 2-YEAR REVIEW**

● 2015 ● 2016



\*Other includes micro market related staff, marketing professionals, cleaning staff, kitchen, tech and admin

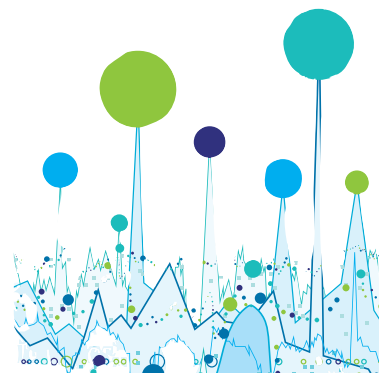
## Strong workforce propels industry

The Bureau of Labor Statistics summarizes that after a high of 5 percent in April 2016, unemployment rates have decreased. By December 2016, the unemployment level was 4.7 percent, the lowest on average in nearly 10 years. The unemployment rate and consumer spending habits have always played a crucial role in the growth of the vending and micro market industry. Employees must first have secure jobs and disposable income before deciding to shop at convenience channels. In 2016, consumers were back at work and employers were willing to spend money on retention and engagement of those employees, especially in technology companies. This is indicated, in part, by the more than half of operators surveyed who said the number of locations they service increased in 2016 (see chart 3B). In comparing the number of locations served in 2016 versus 2015, there is a substantial jump in the number of location, an average of 100 locations. It is important to note here that operators reported new locations, but not always new vending machines. They continue

to purchase new vending machines for these locations, but also redistribute vending machines displaced by micro markets.

For vending machines, the type of locations serviced showed some variation. Manufacturing locations account for the largest increase jumping from 18.4 percent to 24.4 percent. Offices and retail sites also gained where military bases, correctional facilities and restaurants

**ON AVERAGE,**  
*operators have added hundreds of new locations since 2015.*



**CHART 5: STRATEGIES FOR HANDLING HIGHER COSTS, 2-YEAR REVIEW**

PRODUCT	2015*	2016*
Raised prices	82.4%	78.3%
Absorbed extra cost	56.7	52.5
Eliminated unprofitable account	44.0	44.1
Reduced service frequency	36.6	39.9
Rearranged routes	37.0	33.6
Lowered commissions	28.2	33.6
Reduced equipment in accounts	18.3	23.1
Rearranged job responsibilities	13.7	13.3
Switched to using more cost-efficient vehicles	15.5	9.1
Postponed parts or equipment buys	13.4	8.4
Reduced product variety	9.2	7.0
Reduced company travel	6.7	6.3
Adjusted compensation/benefits	3.5	6.3
Postponed equipment repairs	4.9	4.9

\* Includes multiple mentions

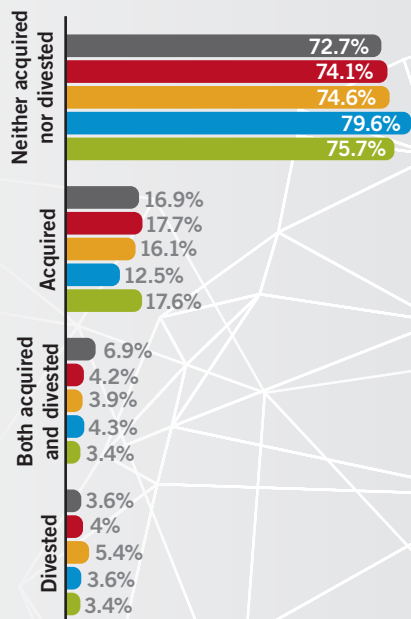
# PLANTERS



# STATE OF THE INDUSTRY

**CHART 6:**  
**ACQUIRED OR DIVESTED BUSINESS,  
5-YEAR REVIEW**

● 2012 ● 2013 ● 2014  
● 2015 ● 2016



**CHART 7: SEGMENTS WHERE  
PRICES WERE RAISED**

PRODUCT	2016
Candy/snacks/confections	26.3%
Cold drinks	22.2
Vended food	11.5
OCS	10.2
Hot beverages	7.4
Ice cream	5.9
Milk	5.9
Manual foodservice	3.3
Cooperative service vending	2.6
Sundries/toiletries	2.0
Water filters or water service	2.0
Other: Micro Markets	0.5

decreased. This makes sense with the increased requirements on vending machines in federal facilities. These locations are also commonly operated by Blind Enterprise participants (BEP) that operate under a slightly different business model. The decrease in restaurants is not surprising given the slow down in that sector. Even the convenience store industry has suffered losses, with *CSP Magazine* reporting a decline of 3.8 percent for 2016. It appears that off-site refreshment is struggling, while on-site refreshment appears to be enjoying more business.

In fact, workplace locations are substantially shifting their mentality about on-site break rooms. Many realize offering refreshments is a must for employees, especially with the latest studies showing the positive effects of free food and beverages. A 2016 study by Fractl reported that 10 percent of employees gave free snacks "heavy consideration" when deciding between a high paying job and low paying job. According to Peapod 2015 research, those free snacks and coffee are the difference between unhappy workers and happy ones.

**CHART 8: PRODUCT CATEGORY CHANGES IN 2016 VERSUS 2015**

PRODUCTS	EXPANDED	REDUCED	STAYED THE SAME	N/A
Vended cold drinks	50.4%	11.6%	31.4%	6.6%
Micro market only products	49.6	0.9	7.8	41.7
Vended candy/confections/snacks	46.0	14.3	37.3	2.4
Vended food products (sandwiches/salads/entrees/etc.)	42.2	12.9	20.6	24.1
Bottled water (not single serve)	33.9	2.7	32.1	31.3
Coffee service related products (not vended)	33.3	12.0	22.2	32.5
Water filters or related products	24.3	1.8	21.6	52.3
Pantry service related products	19.4	4.6	19.4	56.5
Vended ice cream products/frozen confections	11.4	14.0	33.3	41.2
Milk	10.8	9.0	37.8	42.4
Hot drinks (vended)	9.7	16.8	38.9	34.5
Vended sundries/toiletries	5.3	7.0	33.3	54.4

\*N/A means the operators did or does not offer the category.

## Consolidation continues

While locations struggle to stand out to possible employees, operators struggle to stay relevant in a saturated industry leading to the continuation of consolidation. The percentage of acquisitions has been in the double digits since 2010. In 2016, 17.6 percent reporting acquiring part or all of another business, up from 12 percent in 2015 (see chart 6). The number of medium-sized companies shrank by 5.6 percentage points from 2015 due to mergers and acquisitions, while large companies remained largely unchanged (see chart 2). More than half of the industry is still emerging operators who report making under \$1 million in annual revenues. This

# STATE OF THE INDUSTRY

segment represents \$1.9 billion in sales, however. The largest segment, by revenue, are those operators making over \$10 million annually, who gained a greater percentage of the industry revenue share, increasing from 39 percent in 2015 to 43.7 percent in 2016.

With the consolidation of businesses, comes some staffing changes. Of the companies that added or reduced employees, more were hired in 2016 than were laid off (see chart 4). Delivery and warehouse personnel were the areas employees were added or reduced most often, which is a slight change from the year before. In 2015, more staff reductions were made in administrative personnel than warehouse personnel. Despite the consolidation, most companies made no staffing changes.

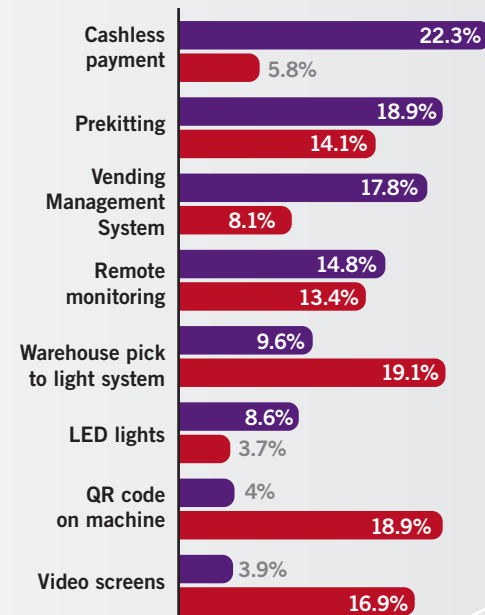
## Rising costs means raising prices

As products, equipment and services get more expensive, operators continue to raise prices, although fewer did so in 2016 (see chart 5). Raising prices, absorbing costs and eliminating unprofitable accounts remain the top three strategies used by vending and micro market operators. Running a close fourth in 2016 was reducing service schedule. This can be done using a vending management system and telemetry. It also ties into making the existing routes more profitable and the increased use of technology, which is driving the industry's growth.

In fact, there has been a noticeable shift in how the industry looks at technology. Last year, LED lights were ranked the second most favored technology investment for operators, followed by vending management systems (VMS) and then prekitting. In 2016 however, that has shifted, with prekitting considered a valuable technology investment by almost 19 percent of operators (see chart 9A). VMS ranked a fairly close third with

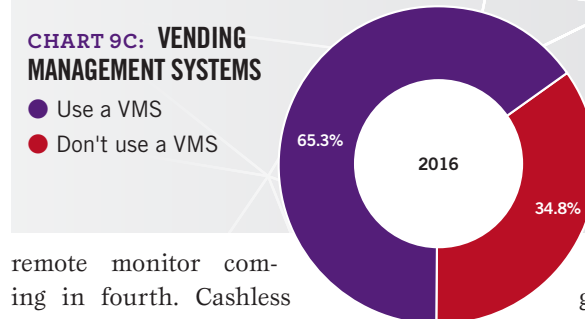
**CHART 9A: TECHNOLOGY INVESTMENTS RANKINGS**

- Great Investment - ROI
- Don't use it



**CHART 9C: VENDING MANAGEMENT SYSTEMS**

- Use a VMS
- Don't use a VMS



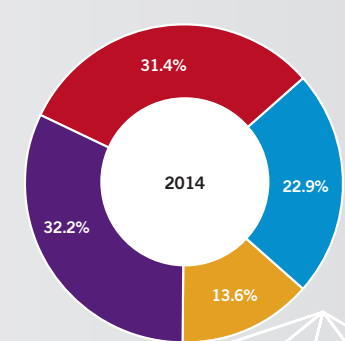
remote monitor coming in fourth. Cashless was the leading technology favored in both 2015 and 2016, and has been reported by many operators as one of the most important changes they made in the last year.

According to the responses, the number of vending machines in the U.S., operated by independent operators, that offer a credit and debit card machine is the highest ever, at 30 percent of the existing market. That is 1,050,000 machines with the latest market estimate (3.5 million vending machines, a number that has been shrinking due to the rise in micro markets).

The acceptance of two-tier pricing by consumers, where there is a

**CHART 9B: VENDING DATA COLLECTION TRENDS**

- Telemeter or cashless device remotely/using the cloud
- Manual process (such as paper and pencil) on location
- Handheld device on location
- Smartphone or Tablet (Apple or Android) on location



10- to 25-cent discount given for using cash, has convinced most of the vending operators who were holding out on cashless to now offer it. The most innovative are pushing the envelope, ensuring their card readers are accepting mobile payments, which many believe are the future, especially as the college-age students who use mobile wallets start entering the workforce. Raising the capital to invest in card readers and connecting them to the internet remain obstacles in some cases, but the industry has turned a corner in payment technology and it is advancing faster than ever before.

Another area of technology that is evolving quickly is VMS and

# MICRO MARKET BREAKOUT

**46**

Average number of micro markets

**0%**

operators who responded and have 0 micro markets.

**45.5%**

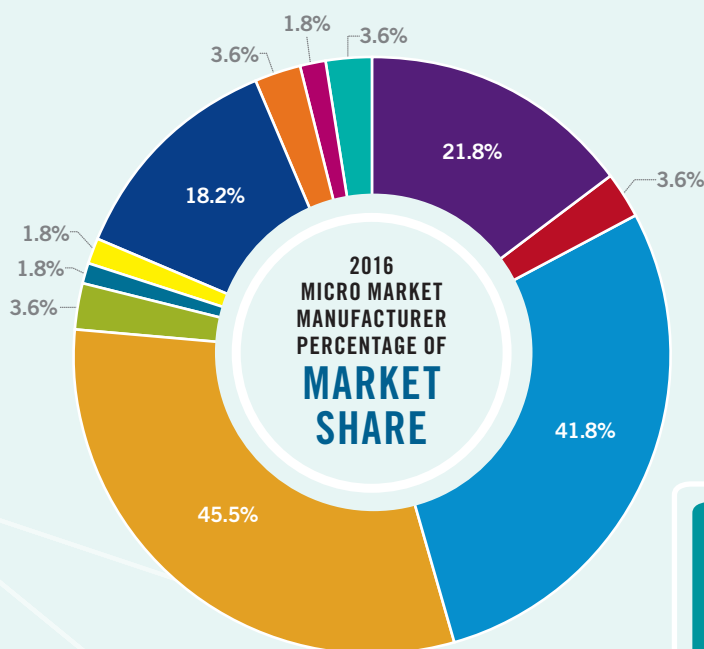
have 1-10

**74.6%**

have less than 50

**3.6%**

have more than 500



- Three Square Market
- Yoke/Delicious Nutritious
- 365 Retail Markets/Ave C
- Avanti Markets NW
- Breakroom Provisions
- Microtronic US
- Smart N Go
- Company Kitchen
- deOro Markets
- Parlevel
- Other

\*Percentages are based on the most recent survey of operators and the total is greater than 100% due to operators reporting using more than one micro market type.

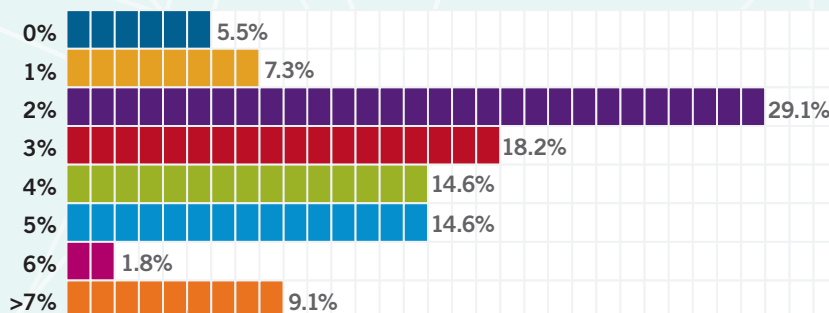
**MICRO** market perception is that everything is fresher and healthier. Plus, new technology.

## MICRO MARKET SEGMENT IS:

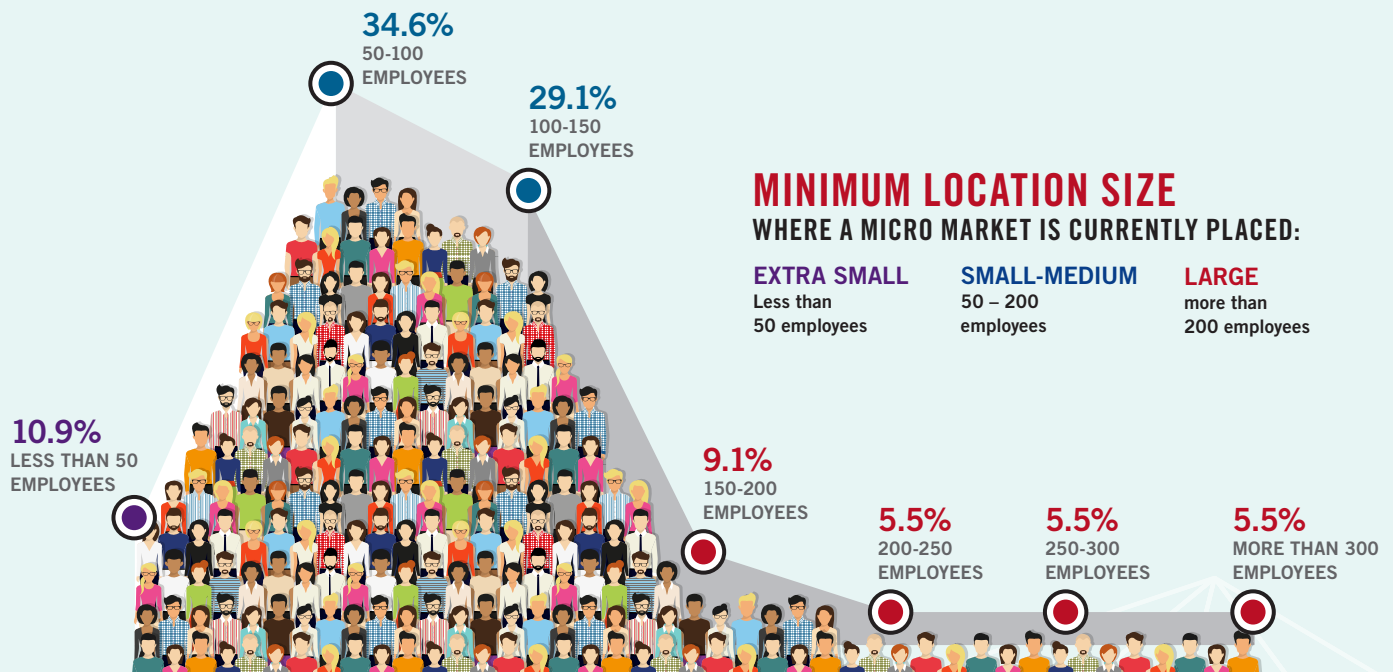
● Growing ● Staying the same ● Declining

**TYPICALLY** once a prospective customer visits a customer with a micro market, they are hooked.

## AVERAGE SHRINKAGE/THEFT PERCENTAGE



# STATE OF THE INDUSTRY



**ACCOUNTS**  
are spreading the word to each other.

**MARKET** is pretty much saturated.

92.7%

7.3%

0%

**HIGH** demand for alternative to vending.

**OPERATORS** starting to offer commissions and market accounts below minimum profit thresholds.

## TOP THREE MICRO MARKET CHALLENGES:

**23.6%**

### New Products

– consistently finding the new product variety customers want

**18.2%**

### Theft & shrinkage

– a greater number of micro markets driving up rates

**3.6%**

### Competition

– more operators doing micro markets devalues the service for some

# STATE OF THE INDUSTRY

**CHART 10: CASHLESS ACCEPTANCE ON VENDING MACHINES**

*Percentage of vending machines that accept cashless payment, such as debit cards, credit cards or mobile wallets*

**30.7%**

*Percentage of operators who reported having no cashless devices*

**12.5%**

**NEARLY 70%**  
*of operators are now using technology to gain more efficient operations.*

telemetry. The number of vending machines connected to the internet has increased, according to the suppliers of these technologies. The information helps vending and micro market operators create more efficient operations. In fact, nearly 70 percent of operators are using some form of technology, from telemeters to handhelds to iPads, in order to gather sales data from their vending machines (see chart 9B). That data can then be used by a VMS to save time servicing machines, eliminate unprofitable routes, prekit and increase other money saving processes, not to mention delivering better cash accountability and sales analysis. The percentage of operators using a VMS increased to 65.3 percent in 2016 compared to 54 percent a year before.

## Change in services (micro markets)

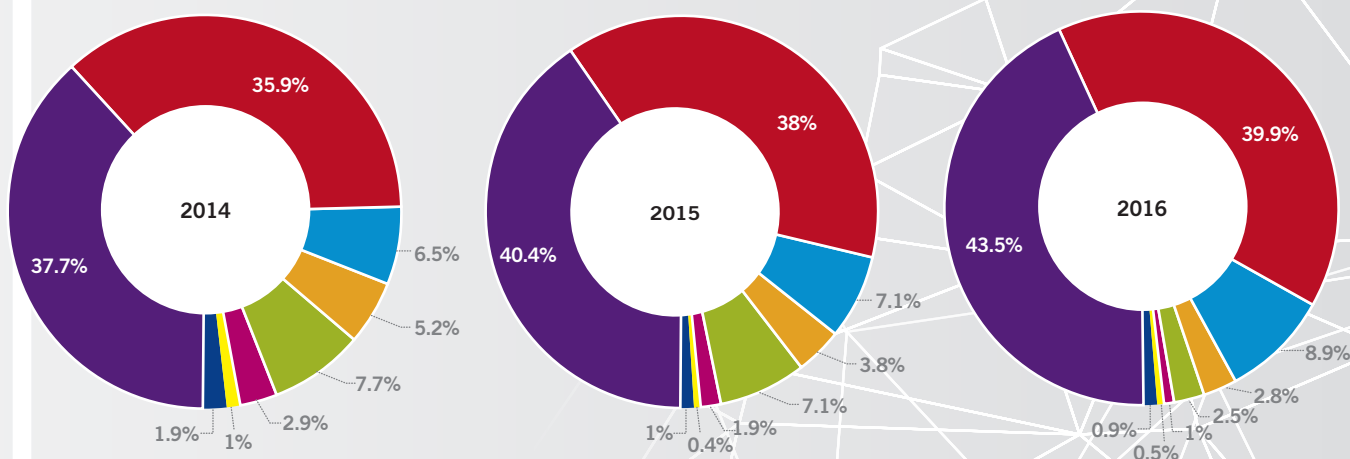
In the vending and micro market industry, we can't talk about the increasing adoption of technology without including micro markets.

These systems gave consumers more of what they wanted in convenience services than vending ever could — more choices, including fresh and healthy products, the chance to touch and feel items before purchasing, an open concept with a café-style feel and convenience being right on-site. The share of sales revenue attributed to micro markets grew in 2016 to 12.9 percent, 2.7 percentage points over 2015 and representing \$2.8 billion (see chart 11B). The average number of micro markets per operation spiked to 45, up from 13 the year before (see micro market chart section).

Micro markets have even shifted products in vending, raising up vending food due to the enhanced quality of food being introduced to meet the micro market need. Many operators are adding this food to vending and finding it more successful than previous food offerings. Food vending will likely never overtake micro markets, as consumers still do not like shopping for food items behind glass, but

**CHART 11A: SHARE OF SALES BY PRODUCT CATEGORY, 3-YEAR REVIEW**

- Cold beverages
- Vended food
- Other\*
- Sundries
- Candy/snacks/confections
- Hot beverages
- Ice cream/frozen
- Milk



\* Includes cooperative service vending, condoms, toll passes, repair services, rental equipment



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SLIDER®  
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*\*Time News Feed, Time Inc., January 14, 2014*

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**CHART 11B: SHARE OF SALES BY SERVICE CATEGORY, 3-YEAR REVIEW**

	2014	2015	2016
Vending	60.1%	54.6%	78.1%
Micro Markets	8.9	10.2	12.9
OCS	13.3	6.8	5.2
Water service	1.9	2.0	1.0
Manual foodservice	7.6	9.1	0.9
Other	4.2	9.5	0.7
Bulk vending	2.0	2.3	0.7
Music	1.1	1.9	0.3
Games	0.8	3.0	0.3
Janitorial Supplies	0.1	0.7	0.1

vended food sales have increased due to the greater variety and quality of the SKUs. Food is ranked as the third most important product category for micro markets, following beverages and candy/snack.

## Product categories

Product categories are altering due to better insight at the item level. In vending machines DEX data combined with VMS helps operators identify what is selling and what isn't. Micro markets have this type of reporting built in. It is becoming more common place to rely on these systems to identify the items operators should include in locations than on gut instinct or the route driver. Route drivers continue to play a critical role however, especially in micro markets. The role has shifted to one of a sales and merchandising, with operators starting to focus more on those elements during driver training.

## Cold beverages

When operators raised prices, cold beverages and snacks were the two categories affected most often (see chart 7). Operators reported expanding beverages based on consumer requests and demand. The number of SKUs dedicated to sparkling water, ready-to-drink teas and coffees, juice, energy drinks, and in some cases

milk expanded. The core cold beverages, classic sodas, were reduced in many cases, however, they did not disappear. In vending especially carbonated drinks still remain a strong contender. The Beverage Marketing Corp. reports that although carbonated soft drinks slipped into second place among liquid refreshment categories, they continued to account for four of the five top beverage brands by volume. It was bottled water that

**VENDING  
REMAINS  
BULK OF  
SALES**  
*despite micro  
market gains in 2016*



had a truly significant year in 2016, surpassing carbonated soft drinks to become the number-one beverage by volume. This fits into the latest preferences of consumers, which is a high demand for healthy and organic products. A huge majority of vending and micro market operators, 84.7 percent, were asked to offer healthier items in 2016.

## Candy/snack

The shifting focus on health and wellness is changing the snack segment, but not always in expected ways. Candy overall has seen an increase in revenue with chocolate options and the gum and mint offerings gaining the most (see chart 14). Cookies and crackers also saw a huge increase in sales in 2016 over 2015. The popularity of these types of items is often confusing as it runs counter to the better-for-you trend, but many consumers still have a sweet tooth and still want an indulgent product. Also, many gum and mint options are seen as healthier since they are low in calories and freshen breath.

Treats were not the only increases in 2016, however. Perhaps more expected was the increase in nuts and seeds and food snacks, which fit into the healthier snacking trend. Interestingly, the broad "nutritious" category saw a decrease in sales, likely do to the snacks in this category being redesignated into other categories such as chips, food snacks, etc. One of the biggest challenges for operators is getting a steady supply of these "healthier" options especially as consumers want an ever expanding selection for their micro markets. Many operators reported that suppliers, many of whom are smaller businesses, have a hard time keeping up with demand for healthy and nutritious grab and go convenience items.

Ice cream had low performance in 2016, with operators reporting decreasing sales revenues.

## Hot beverage and OCS

Coffee prices, both in hot beverage vending machines and in OCS, were raised more often in 2016 than in 2015. Hot beverage machines suffered in 2016, with fewer being placed. This is due to the perception many consumers still have of vended coffee, which has seen a lower percentage of sales for a while. OCS appears to have declined as well, but this is due more to the increase in micro markets than actually decrease in the OCS segment. Operators continue to report OCS as a strong business, with many companies expanding it, some to food and beverage products beyond coffee, also called pantry service or the micro kitchen. This could also lead to operators reporting the revenue in food and beverage despite the location requesting it as part of their OCS solution. Coffee sales are also heavily affected by warm weather in some areas, which leads to decreased sales.

## Food

Most of the food in vending machines is frozen/refrigerated food, 33.5 percent compared to 14.5 percent being fresh, because of the longer shelf life. While this year's survey did not ask about the specific food makeup for micro markets, it did ask what percentage of revenue was food. Operators with micro markets reported that 25 percent was from food sales, quite a bit higher than traditional vending. And operators have expanded fresh food product offerings to keep up with the growth of their micro market divisions and consumer requests for items beyond snacks. In micro markets specially, sundries and food do very well. Operators report that locally made sandwiches and fresh food do ideal in micro markets, as they appeal to the desire for local, freshly prepared items.

**CHART 12: PROJECTED SALES BY CATEGORY, 5-YEAR REVIEW IN BILLIONS**

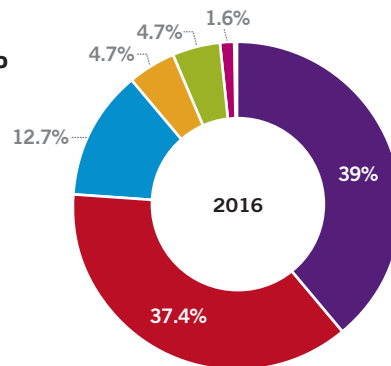
PRODUCTS	2012	2013*	2014	2015	2016	% CHANGE
Cold beverages	7.34	7.88	7.61	8.4	9.4	11.3
Candy/snacks/confections	\$5.22B	\$6.56B	\$7.24B	\$8.0B	\$8.6B	8.2
Vend food	1.38	1.69	1.30	1.5	1.9	27.5
Hot beverages	0.89	1.00	1.05	0.8	0.6	-24.5
Other	0.94	0.91	1.55	1.5	0.5	-66.5
Milk	0.49	0.57	0.39	0.2	0.2	0.6
Ice cream/frozen	0.59	0.63	0.59	0.4	0.2	-49.7
Sundries/Toiletries			0.20	0.1	0.1	25.8

SERVICES	2012	2013*	2014	2015	2016	% CHANGE
Vending			12.12	11.4	16.9	48.1
Micro Markets	0.35	1.01	1.79	2.1	2.8	31.9
OCS	\$2.14B	\$2.52B	\$2.68B	\$1.4B	\$1.1B	-22.9
Water Service			0.39	0.4	0.2	-51.5
Manual foodservice	3.33	2.32	1.53	1.9	0.2	-89.5
Other			0.85	2.0	0.2	-89.9
Bulk Vending			0.40	0.5	0.1	-79.0
Music			0.22	0.4	0.1	-74.8
Games			0.16	0.6	0.1	-84.2

**CHART 13: PERCENTAGE OF EACH TYPE THAT MAKES UP PLACED VENDING MACHINES**

- Cold beverage
- Snack
- Combo
- Frozen only
- Food
- Hot Beverage



# STATE OF THE INDUSTRY

**CHART 14: CANDY/SNACK/CONFECTION MACHINE  
ESTIMATE TOTALS BY CATEGORY AND SUBCATEGORY**

	2017 REVENUE	% SALES OF TOTAL	REVENUE CHANGE
<b>CANDY</b>	<b>\$2.4B</b>	<b>27.7%</b>	<b>8.4%</b>
Chocolate	1.8B	74.9	23.1
Non-chocolate	376.4M	15.8	-31.6
Bag candies	43.80M	1.8	4.4
Gum & mints	178.7M	7.5	13.8
<b>SNACKS</b>	<b>\$6.2B</b>	<b>72.3%</b>	<b>9.0%</b>
Bagged snacks	404.1M	6.5	321.5
wafers, cookies, nuts, brownies, pretzels, fruit clusters, bagged gum, yogurt bites			
Chips	2.9B	46.6	4.0
Cookies & crackers	1.1B	17.8	30.3
Food snacks	124.4M	2.0	41.7
Cheese sticks, meat sticks, meat bites			
Nutritious snacks	317.1M	5.1	-18.0
Bean chips, granola, fruit snacks, organic items, specialty crackers/pastries/cookies, dark chocolate, bars, dried fruit, hummus			
Nuts and seeds	211.4M	3.4	3.0
Pastry	1.2B	18.5	-11.0
Cupcakes, coffee cake, pies, honey buns, brownies, doughnut, muffins, danish, pastries			
<b>DRINKS</b>	<b>\$9.4B</b>	<b>—</b>	<b>11.9%</b>
Energy drinks, 12oz	94.0M	1.0	-74.9
Non-carbonated, 12oz	188.0M	2.0	196.6
Soda, 12oz	2.5B	26.4	34.8
Energy drinks, 16-20oz	629.8M	6.7	364.6
Non-carbonated, 16-20oz	1.7B	17.9	10.9
Soda, 16-20oz	4.3B	46.1	-3.0

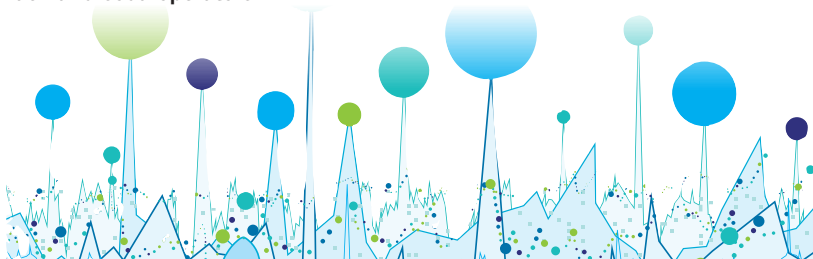
Source: Extrapolated from data courtesy of Cantaloupe Systems, Inc.

With more SKUs in the warehouse to satisfy the micro market food demands, operators began adding the proven micro market items to combination refrigerated snack and food machines. This has done well, driving up vended food sales. Operators are also keeping a close eye on food sales, since spoilage is higher. The micro market kiosk reporting as well as VMS are both important tools operators used in 2016 to decrease expired product that needed to be thrown away and increase the variety on a location-specific basis. Managing products in the warehouse continues to be a challenge for operators as does maximizing rebates when ordering products.

Convenience, snacking, a push for employers to provide enhanced benefits to lure and retain top employees — there are a number of trends happening right now that benefit the vending and micro market industry. Micro markets have elevated the status of operators so they are again being considered the break room experts — a professional image that had been lost with vending. Next on the horizon for many operators is enhanced foodservice with combination micro markets and made-to-order cafes, as well as enhanced pantry services. The location might be staffed during certain hours, but then turned into a self-checkout micro market all other hours or full of freely provided snacks covered by the employer. Break room design is becoming more important as well with well-lit, flexible spaces that are equally appealing for lunch or an informal meeting among staff. With locations willing to finance improvements and engage employees, operators must continue to push the envelope on new services to ensure they are in the right positive to benefit. As long as the economy continues to strengthen, we can expect a good year for the industry, especially micro markets. | ◀

## Methodology

The *Automatic Merchandiser* State of the Vending Industry Report is compiled from a survey sent to vending operators in Spring as well as operator insights. The 2017 report is based on more than a 3 percent response rate, and includes small, medium, large and extra-large full service operations as well as snack and soda operators.



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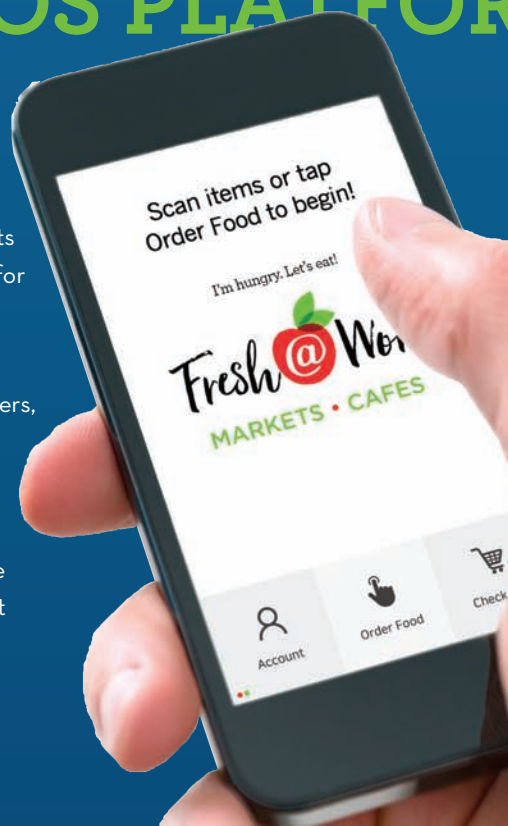
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# The Magic In Selling Service

By Emily Reformat, Editor

For Merus Refreshment Services, Inc., it's not easy being an independent, OCS-only service provider in Greenville, SC, but being customer centric does the trick.



**S**teve Bailey and Steve Gilcrease manage Merus Refreshment Services with a passion for customers. You need only look around to see the customer-centric nature of their operation. Over the threshold of every door of the 10,000 square foot facility in Greenville, SC, whether it's a closet, bathroom or warehouse entrance, there is a customer service slogan. "And that is the case for every office we have," said Bailey, the

CEO. Right outside his office is a huge banner that reads, "Customers are our future." It's not just lip service for Bailey and Gilcrease, the latter being company president as well as co-owner. Putting the customer first drives Merus to succeed against the challenges of being an independent office coffee service operator in a mature industry with many national competitors. They reinforce the message to staff through regular training, and customers through market-

ing that doesn't just showcase the products, but also the level of service.

### Making a splash in offices

Bailey and Gilcrease began in 1998 as dealers for what is now Waterlogic point of use (POU) water coolers. Business boomed, but the pair soon realized it was going to be hard to continue growing without more reoccurring sales revenue. The POU systems were averaging \$49 per month. Bailey drew on his experience a decade earlier working for Tom Williams of Coffee Butler in Virginia. Since coffee tastes better with filtered water



Route driver Jamie Rowe ensures each Merus Refreshment Services customer has superior service.

and is a service paid for by the location, much like water coolers, offering office coffee seemed like a natural product fit which the duo could offer to Greenville businesses. Bailey and Gilcrease opened the OCS division in late 1999 and it now represents 70 percent of the company's overall revenues. Gilcrease runs the service side of the business along with facilities management, while Bailey handles the sales side.

Together, Bailey and Gilcrease compete against the larger companies by specializing in OCS. They feel that offering coffee service as an individual business provides a higher level of service. As a specialty business versus an OCS division, the customer receives more innovative coffee service solutions.

### Coffee's evolution

Merus offers a variety of coffee service options, much of it centered around traditional OCS such as glass pots and air pots. They provide coffee primarily to offices, but also to food service. Single-cup is another strong OCS area for the company. Merus has been a Keurig authorized distributor for 8 years, leading single-cup offerings in the Greenville, Columbia and Charlotte markets. While single-cup is exciting for the consumer, Bailey has some reservations.

"K-cups® get customers focused on a specific product," said Bailey. This eventually leads to the conversation that K-cups are available nearly anywhere and are often less expensive than what the OCS operator charges. Bailey's team then has to remind clients that this will always be the case. "From your OCS provider, you're getting service. Not just a variety of K-cups," he gave as an example.

Bailey also has concerns about the quality coming from some single-cup coffee options. "I'm afraid we're doing what we did in the mid 1980s and alienating an entire generation of coffee drinkers," explained Bailey who was there when coffee frac pack weights were dropping in response to high green coffee prices. Weaker coffee turned many people away from coffee.

Despite some qualms, Bailey credits single-cup for overcoming price sensitivity. "We used to really work hard to convince customers paying 10 cents a cup that for 20 cents, they could get a really nice cup of coffee," he said. "Now, with single-cup, they will pay 60 cents a cup at the drop of a hat."

Bean-to-cup brewers have become more desired by customers, which has turned out to be a good thing. "Every



Steve Bailey,  
CEO



Steve Gilcrease,  
president

bean-to-cup brewer we put out seems to generate good revenue,” he said.

Merus uses primarily Krea Necta bean-to-cup brewers. Part of the benefit is the various soluble options and the flexibility in coffee beans. “It’s an open platform,” said Bailey, “so we can put whichever solubles and beans in that the location wants.” Bean-to-cup machines aren’t for every location however. “You market them differently,” said Bailey. “We’re highly selective of the bean-to-cup customers because it requires a special relationship.” Merus needs someone willing to have a person onsite, a key operator, who will clean the brewer and do daily maintenance on the equipment such as filling the coffee bean hopper. “We certainly see the potential, but the growth is slow, as the equipment is expensive and costly to maintain,” added Bailey.

Merus has recently launched a cold brew solution. “We offer it as a 4-ounce filterpack,” said Bailey. It is coffee designed to be cold brewed and with an order, the company includes the 64 ounce pitcher to brew the coffee in for 16 to 20 hours. “I personally love cold brew and this product, not being a canned or bottled product. However, it’s been a slow mover for us,” admitted Bailey.

In addition to coffee, Merus offers paper products and bulk snacks. This has grown out of what it calls concierge service where customers can call and order a product from the Merus catalog. “We will deliver the order with the next scheduled service,” said Bailey. It’s offered to all customers because that is important to Merus’ customer-centric focus. Even with service issues, Bailey and Gilcrease have a strict service-quality rule. “If an order or service call comes in before noon, it must be dealt with that day. If afternoon, by noon the next day,” explained Bailey. “Service is the linchpin in our industry.”

One way Merus guarantees a higher degree of service is using CMAP. “We



Pam Larmore, seated, works as a controller, while Patty Davis handles office services.



Merus began with water filtration systems and they continue to be a large part of sales.



Anthony Murphy, service technician, keeps equipment running smoothly at Merus.

## Operation Profile: Merus Refreshment Services, Inc.

**Owners:** Steve Bailey  
& Steve Gilcrease

**Headquarters:** Greenville, SC

**No. of employees:** 25

**OCS routes:** 6

**Equipment:** Krea Necta,  
Keurig, Waterlogic, Curtis

**Annual revenue:** not revealed

identify our larger customers under the Coffee Major Account Program or CMAP,” said Bailey. “We visit those customers on a regular basis to ensure we are handling their needs.”

Bailey and Gilcrease are constantly training their staff on service. For their six outside sales people, they will set up a full day of training and cover a wide range of topics from

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documentation to corporate reminders that set the right tone. However, route sales people, the ones that make deliveries, require a different training model altogether. "Route sales people have a 'I need to get back to my route' mentality," said Bailey. Merus likes this attitude, so works with the dedication of its employees. Instead of scheduling long training sessions, it holds shorter, 2-hour training sessions monthly. The topics are generally internally developed and run as modules. A recent example Bailey shared was 'Understanding The Customers Perspective,' focused on making sure drivers hear what the customer actually means, which is not always what they say. Another example training was 'Properly Rotating Inventory and Maintaining Equipment.' "This is something we do over and over because it's so important," said Bailey.

## TRAINING is important in order to maintain customer satisfaction.

Merus regularly communicates with decision makers and influencers via email as well. "Customers appreciate knowing about our new items," said Bailey. Especially when it goes along with superior basic service. "We make sure we're brilliant at the basics too — changing pots, rotating inventory, policing the area around the brewing equipment during a service, etc." said Bailey. "Not every OCS provider does that." And

of course part of the training is to tell the decision maker or influencer about the service that just occurred in order to ensure the customer understands the quality and benefit an OCS provider offers. "An extremely high level of service is critical in this business," added Bailey.

### POU in the black

Water was the backbone of the company and still generates nearly

**Merus focuses on training not only sales people, but its route personnel recognizing their engagement with customers is crucial.**



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## Regular Training & Communication

Merus Refreshment Services, Inc. requires monthly training of its route drivers, called route sales people. One of the common themes is listening to the customers. Topics may include how to change the culture from being driven by what is easiest for the company or driver, which is the tendency, to what is better for the customer. Another is how to report on what was just accomplished during a service call or regular delivery, such as rotated pots or cleaning the area. "You have to continuously point out to your customers the type of service you're providing," explained Steve Bailey, CEO and co-owner, "we call it leaving tracks." Without being educated on the quality of service, OCS can become an invisible benefit that is overlooked unless there is a problem. By "leaving tracks" Merus ensures the service is recognized and the location understands the company's commitment to the customer.

\$1 million in sales each year. “The water business is still very good,” said Bailey. Initially the POU systems Merus installed were replacing 5-gallon water coolers as it can save a customer of a certain size substantial money. For example, an account with 20 employees would likely use 10 bottles a month, which is about \$65 a month in water costs, plus a \$10 rental fee. A point of use system costs the location about \$49 a month cutting the price substantially while still offering enhanced water.

While the company is still replacing many 5-gallon systems, there has been a substantial increase in locations that had no previous water solution. “The demand for enhanced water systems is especially large. There is definitely a consumer need and demand in the marketplace,” Bailey said. One of the reasons POU is growing so much



Maintaining proper SKUs in the warehouse is Keith Markham's specialty.

is the shorter term contracts and pricing structure. According to Bailey and Gilcrease, when POU first came out, the leasing contracts were for 4 to 5 years. Now there is more flexibility with 12-month contracts. “Plus, the price point of POU coming down helped a lot,” added Bailey.

### A business with challenges

Merus currently has no plans to extend to vending or micro markets and the reason is simple. The founders think it is important that office coffee service be its own company. “I worry about OCS being simply a division of a vending company. It won't get the innovation it deserves,” explained Bailey.

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Bailey and Gilcrease are keenly aware of the market challenges. Many of their large locations are in multiple states and talk about switching to a national company in order to streamline services and get a single invoice. "There's not much we can do," said Bailey, "except focus on our service and educating them on our level of care." The focus on local has helped Merus as well as the company's training on how to talk with customers about service. "If you don't leave tracks, it's easy for them to think you never came," Bailey added.

## Employee Incentive Program

At Merus Refreshment Services, Inc. success is a team effort. That is why co-owners Steve Bailey and Steve Gilcrease offer an annual trip to employees and their spouses for meeting or exceeding revenue and business goals. The annual incentive trip is extended to all employees, and their spouses, and offered at two different times. Half the staff goes on the first trip, and the rest go on the second trip. This past year was a cruise and for 2017, it is the Amelia Islands in Florida.

It's this story of service to customers, supported by a dedication to providing OCS at the highest lev-

els and regular employee training, which keeps Merus successful and ready for the future. | ◀

# Marketplace

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1. Technomic, Breakfast Consumer Trend Report, 2015

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