



Discover The Hidden Micro Market Costs page 22

UPDATE: EMV & CHARGEBACKS page 30

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Coffee Service Industry Resource

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## FLORIDA DUO WEATHERS STORM

**Josh and Lisa Leuchter** have rebuilt Snackworks, Inc. to pre-recession success by investing in their business and partners.

page 40

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# Contents

FEBRUARY/MARCH 2016  
VOLUME 58, NUMBER 1



Brothers Mike and Pete Torres work as route drivers for Snackworks, Inc.

## SUCCESS STORY OPERATION PROFILE

### 40 ▶ Florida Duo Weathers The Economic Storm To Grow Business & Profits

Snackworks  
co-owners  
Lisa and Josh  
Leuchter



Determined to reinvent and reinvigorate itself, Snackworks, Inc. has built its business back up to pre-recession success through strategic investments and industry partnerships.

## FEATURES

### 14 ▶ What You Didn't Know About The VMS Cloud Vs. Server Debate

Selecting a system to collect and analyze sales data might seem like a simple choice — buy a server and software license or pay a monthly fee for service and hosting in the cloud, but there's more to it.



### 19 ▶ Don't Feed Those Social Media Complainers, Haters & Trolls

Online Opportunities

## MORE FEATURES

### 22 ▶ The Hidden Cost Of Micro Markets

Industry operators examine unanticipated costs and challenges of entering the micro market segment — and why they are still worth the investment.

### 28 ▶ NAMA Anticipates Largest OneShow In History



With an enhanced educational agenda, a unique opening session and more

exhibitors than ever before, the 2016 NAMA OneShow promises to be an exciting experience.

### 30 ▶ EMV & Chargebacks: What We Know So Far

Some operators report higher



chargeback fees after the EMV liability shift, but it's not time to panic.

### 36 ▶ A Good Balancing Act Leads To OCS Success

From turbulent local economies to evolving consumer habits, OCS operators must stay nimble to win in today's coffee service industry.

## DEPARTMENTS

### 6 ▶ Editor's Note

Selling Convenience In A Point & Click World

### 8 ▶ VendingMarketWatch News

### 12 ▶ OCS Update

The Opportunity For An Online Ordering Service

### 43 ▶ Product Spotlight

### 45 ▶ Classifieds

## Online Exclusives

AVAILABLE ONLY AT VENDINGMARKETWATCH.COM

## BLOGS, PODCASTS & VIDEOS



- ▶ **VIDEO: Micro Markets, Cashless Add To High Operator Confidence**

[www.vendingmarketwatch.com/12160082](http://www.vendingmarketwatch.com/12160082)

- ▶ **EDITOR'S BLOG: Get Out Of The Price War**

[www.vendingmarketwatch.com/12155913](http://www.vendingmarketwatch.com/12155913)

- ▶ **GUEST BLOG: The Nightmare Of A Coffeeless Coffee Business**

[www.vendingmarketwatch.com/12166175](http://www.vendingmarketwatch.com/12166175)



- ▶ **BLOG: 5 Reasons Operators Should Consider GPS**

[www.vendingmarketwatch.com/12160946](http://www.vendingmarketwatch.com/12160946)



- ▶ **BLOG: Visibility Is A Must**

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# Selling Convenience In A Point & Click World

Refocusing on service can help address challenging consumer habits.

Consumers were once willing to pay more for an item if it was convenient. In our industry, this was snacks and beverages, which usually cost less per item if purchased from a grocery store and brought to work. Employees were OK with a few extra cents if they didn't

have to leave the comforts of the building. But this idea of paying more for convenience is slowly being eroded by online retailers, and it is making business more difficult for operators.

## Redefining convenience

Let us take Amazon as an example of an online retailer. If you are one of the 300 million worldwide users, you understand the new style of convenience. From my couch I can order something in the exact color, material or brand I want. I can compare prices and read reviews. If I was shopping in person, I might have to visit two or three stores

before finding the exact item I was looking for, and then I would look at the price and wonder if I went to a fourth store, would it be any cheaper. Amazon brings price and peer review to the idea of convenience, which is difficult to replicate in this industry.

Having to deal with consumers who use online retailers is an emerging topic of discussion as the industry evolves. Consumers dislike

paying more for refreshment items, when the item isn't the exact variety or flavor they want. Suddenly it's not about convenience, but about how it isn't their preferred flavor or that they consider the price too high. It's about workplaces making purchases from online retailers instead of purchasing through the operator.

I think we will see a lot more of this challenge in the future, but there are some operators already breaking through traditional lines to establish themselves as must-have service providers.

## Marketing better

To combat online retailers, I think operators need to go back to the basics, marketing their service and their story. Most operations are family businesses with a local interest in the community. This can have a distinct advantage over online retailers, especially with the popularity of buying local. Some OCS operators have increased their involvement in community events, others have dedicated more personnel to service — all in an effort to stay relevant and in front of their customers. Learn more from our OCS Provider Roundtable on page 36.

Other operators are trying to offer a more convenient shopping experience. A large number are adding different online ordering options to their Websites, see page 12. These can be full retail sites or just online ordering systems meant for their customers. Other companies are increasing their resources to promote themselves online since that is where consumers are shopping. Strategies will continue to evolve as more operators work to meet the needs and preferences of today's locations, but there will remain a clear focus once again on service. | ◀



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## Kimble's Food By Design Relaunches FitPick-Branded Micro Market

**K**imble's Food by Design, located in LaGrange, GA, relaunched a FitPick-branded micro market at a customer location serving more than 900 employees.

Kimble Carter, CEO of Kimble's Food by Design, and his team celebrated the re-opening of its year-old FitPick micro market with new better-for-you options, including a product sampling from co-sponsors, Coca-Cola, General Mills and Kraft Heinz. The micro market features a digital media screen and cashless payment technology, including a customer loyalty program from software provider Breakroom Provisions.

"The relaunch was incredibly successful," said Carter. "Our customers were delighted with the new menu options and the client company continues to be very impressed as they saw the most important ROI — an enhanced workplace culture and improved health and wellness for employees."

NAMA staff members Roni Moore, vice president of marketing and public relations; Kelly Doherty, senior manager of marketing and communications; Sheree Edwards, regional legislative director; and Georgia Automatic Merchandising Council (GAMC) lobbyist Andrew Long were also in attendance at the event.



Kimble Carter, left, and his son CJ, celebrate the re-opening of a FitPick-branded micro market.



### The Coca-Cola Co. Announces Plans To Accelerate Bottler Refranchising

► The Coca-Cola Company announced that it is accelerating the pace and scale of its bottler refranchising efforts with plans to refranchise 100 percent of company-owned North America bottling territories by the end of 2017, including all cold-fill production facilities.

So far, the company has reached definitive agreements or signed letters of intent to refranchise territories that account for more than 40 percent of bottler-delivered distribution volume in the U.S. The company's Coca-Cola Refreshments unit continues to operate company-owned territories in North America and will work to ensure a smooth transition to align new and existing bottling partners going forward.

As part of this accelerated refranchising effort, the company now plans to sell the remainder of its company-owned cold-fill production facilities by the end of 2017. These facilities produce sparkling beverages, such as Coca-Cola trademark brands and Sprite, along with still brands such as Dasani. The company expects to maintain ownership of its hot-fill facilities, which produce brands such as Powerade and Minute Maid juices. Company-owned hot-fill operations will supply the entire North America Coca-Cola system.

### Dallas Fort Worth International Airport Awards Pouring Rights To Coke, Vending To Compass

► The Dallas Fort Worth International Airport (DFW) Board approved proposals for several new concessions contracts, highlighted by a beverage pouring rights and sponsorship pact awarded to The Coca-Cola Company. Compass Group USA, Inc. was awarded the contract for snack vending services across the Airport, including all Terminals, selected administra-

tive facilities and the Rental Car Facility. Compass Group USA, Inc. will deliver the service through its Canteen Vending Services Division.



### AVS To Acquire Lieberman Companies Vending, Amusement Distribution Business

► American Vending Sales, Inc. (AVS) announced the acquisition of Lieberman

Companies (LC) distribution arm. The business will maintain operations in the Lieberman building in Bloomington, MN. Industry vets Kurk Johnson and Linda Winstead will head up the sales efforts in Vending and Amusement respectively.

"We were looking for ways to expand our footprint in distribution and the Lieberman business fits in nicely with ours," said AVS president Vince Gumma. "They have unique expertise in FEC design and micro markets, areas which we have identified for growth."





## Black Tie Services Announces Fourth Acquisition

► Black Tie Services, the largest independent refreshment service provider in the Baltimore/Washington Metro areas has announced the acquisition of Jades Vending of Rockville, MD.

Scott Meskin, president of Black Tie Services, said, "This key acquisition of Jades gives Black Tie Services more concentration in the Washington, D.C. Metro area along with acquiring a 42-year-old vending company with a great team of employees and excellent customer base." Black Tie will integrate most of the 2,700 machines to telemetry and cashless.

This is the fourth acquisition for Black Tie over a 3-year period, the last being Paramount Vending of Jessup, MD in November of 2014. Black Tie Services now operates 7,000 machines primarily in the Baltimore/Washington area.

## Canteen Acquires Twin Cities, MN-Based All Star Vending & Coffee Service

► Twin Cities, MN-based All Star Vending & Coffee Service has announced the completion of the sale of its business to Canteen Corporate in St. Paul, MN. At the time of the sale the company held one vending and one OCS route. Vending veteran Ray Visser started All Star Vending in 1989 which he sold to his grandson, Chad Liedman, in 2011.

"The main reason for the sale was the increasing need for technology and capital to grow and also Chad felt that there would be more opportunity for him to advance with a company like Canteen," Visser told VendingMarketWatch.com. "The business climate seems to be favoring large companies and the shift to micro markets."



## SCAA Revises Coffee Taster's Flavor Wheel

► The Specialty Coffee Association of America (SCAA) announced that for the first time in 21 years, the Coffee Taster's Flavor Wheel has been updated.

To design the new flavor wheel the SCAA partnered with the Food Science and Technology Department at the University of California, Davis. "The research conducted at UC Davis included over 70 professional coffee tasters and sensory panelists who participated in an Agglomerative Hierarchical Cluster (AHC) analysis, a Web-based graphical sorting exercise never before used in coffee research, which was performed to group the flavor attributes into different categories," the SCAA wrote. An analysis was performed to visualize where flavor attributes fell in proximity to one another.

## People in the News

### Lou Larson Departs Betson Enterprises

Betson Enterprises, a Division of H. Betti Industries, Inc., has announced that Betson Distributing's Pittsburgh Branch Manager Lou Larson is leaving the company after a successful 22 year career to pursue an opportunity in the gaming industry.

### Industry Veteran John Reilly Appointed President Of Avanti Markets

Avanti Markets Inc.® announces the appointment of John Reilly as president of Avanti Markets. Reilly brings a wealth of industry knowledge and experience from his tenure as senior vice president of operations at Coinstar, chief global service officer for Concordia Coffee Systems, Inc., and chief operations officer of retail at Inkjet Solutions. Reilly is a practiced and accomplished executive in the POS space. He earned his undergraduate degree from Claremont McKenna College and his M.B.A. from the University of Denver.



Reilly

### Coca-Cola Consolidated Announces Senior Leadership Changes

Coca-Cola Bottling Co. Consolidated announced that it has appointed Robert G. Chambless, James E. Harris and David M. Katz as executive vice presidents of the company and has appointed Clifford M. Deal, III, as senior vice president, chief financial officer of the company, all effective April 1, 2016.

### Michael Houseknecht, Former Co-Owner Of Loose Ends Vending, Dies At 38

Industry member Michael Houseknecht, 38, died unexpectedly on Jan. 7. Houseknecht was a co-owner of Batavia, NY-based Loose Ends Vending from 1999 until it was acquired by Next Generation Vending and Food Service in 2008. Loose Ends operated 42 vending routes and one OCS route at the time of its acquisition. Houseknecht stayed on at Next Generation as vice president of operations until 2011. "Mike was gifted with both great leadership and visionary skills combined with intellectual curiosity about technology that could move our industry forward," said Brian Gill, longtime friend and colleague of Houseknecht's. "He was a role model for others and will be greatly missed by everyone who had the pleasure of knowing him."



Houseknecht

# USA Technologies Acquires VendScreen Assets

**U**SA Technologies, Inc. announced it has acquired the cloud-based content delivery platform, device platform and products, customer base, and intellectual property of VendScreen, Inc.

USA Technologies acquired the assets for approximately \$5.6 million. VendScreen has more than 120 customers with approximately 4,200 active connections as of November 2015. Its devices have been certified, integrated and operable with USAT's ePort® Service for approximately the past year.

"If 2015 was the year of mobile payments, 2016 is going to be the year of consumer engagement," said Stephen P. Herbert, chairman and chief executive officer, USA Technologies. "As consumers and retailers become more accustomed to cashless and mobile payments, companies want to leverage information provided through a cashless and mobile payments environment to engage with the consumer at point-of-sale. Whether it's vending operators, retail, brand or technology partners, corporations are looking for ways to move beyond a simple transaction. Our acquisition of VendScreen's technology further connects our partners and customers directly to the consumer at point-of-sale, and the possibilities are limitless."



USA Technologies acquired the assets of VendScreen for approximately \$5.6 million.



## Vengo Partners With Canteen

► Vengo Inc., creators of the Vengo technology platform, announced a partnership with Canteen to distribute Vengo vending machines to its college locations. Canteen spotted early versions of the Vengo vending machine at New York City-based colleges and identified Vengo as a supplier with a unique product that could help grow their higher education segment, the company said in a release.



## FSU Boasts New Snack Program With Gilly National, Inc.

► Florida State University (FSU) has entered into a multi-year contract with Gilly National, Inc. as the premier snack provider in the university's student housing areas, academic and administrative buildings.

The agreement, which began January of this year, uses cutting-edge vending technology combined with interactive, multi-media touchscreens and custom designed FSU-branded machines to engage users.

Eighty total vending machines were installed and/or updated at the end of Dec. 2015. All machines accept all forms of payment including cash, credit, Apple Pay, Google Wallet, and the FSU student ID through the university's currency, FSUCash.



## Accent Food Services Acquires Best Vending Company

► Accent Food Services, a

vending, micro market and office coffee service provider in Austin, TX, announces the acquisition of Best Vending Company operations. "Best Vending Company is a great addition to Accent Food Services as it fits well into our existing operating territory," said Josh Rosenberg, president of Accent Food Services. Accent intends to absorb 100 percent of the Best Vending Co. customers and employees through the transition. The growing Austin, TX, operation continues to seek acquisitions within its current service area as well as new geographies.

### CALENDAR OF EVENTS

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# The Opportunity for an Online Ordering Service

By Adrienne Zimmer, Managing Editor

Meet consumer purchasing expectations by offering an online ordering component.

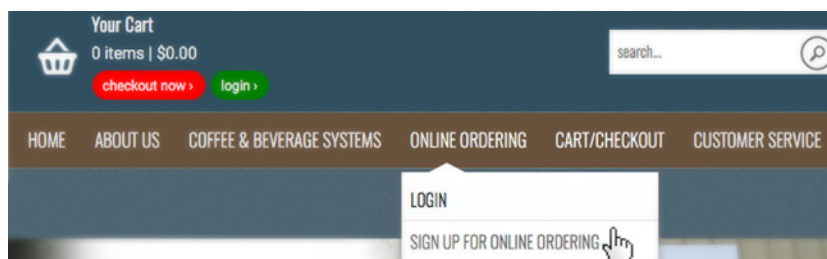
**T**here is little doubt that consumers enjoy shopping online. In 2015 market intelligence agency Mintel reported that nearly 70 percent of U.S. online adults shop on the Internet at least monthly, with 33 percent shopping online every week. OCS operators looking to increase efficiencies and tap into the growth of online shopping may benefit from the addition of an online ordering service.

## What is it?

An online ordering service, in its most simplistic form, allows an OCS operator's customer to log into their personal account on the OCS company's Website, shop around the catalogue for items available, and place an order for delivery. This system has many benefits, such as eliminating the rolling warehouse, increasing items sold and being convenient for the customer.

According to data presented at the 2015 NAMA CoffeeTea&Water event, less than half of OCS operators have a well-developed online ordering capability. Many are quite successful without it, but for those OCS operators looking to create efficiencies, having an online ordering component is a must, said Ken Shea, president of Ken Shea & Associates. "Most operators agree that the number one factor in their ability to compete is great service," said Shea. "Having said that, not having online ordering or complete Internet Coffee Service (ICS) capabilities does leave the operator more greatly exposed to those that do have it."

For Joel Sather, president of Madison, WI-based Capital Coffee, an online ordering service has been wildly beneficial. Capital Coffee cus-



An online ordering service can benefit operators and customers alike.

tomers get automatic reminders when it's time to re-order product and if they forget, another email is generated until the order is placed. Before the online ordering service, Capital Coffee route drivers would deliver the same product the customer ordered on the last invoice. Now, customers have the ability to change product selection to include different flavors, extra coffee or allied products, too. "The customer buys more when they online order because they see that we sell soda, seasonal coffees and creamers and so the overall sales go up," said Sather. "Plus, if a client is having a big meeting or party coming up, they will order extra product to fit their

needs." After 10 years with online ordering, Capital Coffee receives 65 percent of its orders online.

"There is no negative to offering the service," he said, discounting the online ordering service fee. "The fee can be covered in one order, so even that isn't a negative," he said. Security isn't a concern for Sather, either as no money transaction takes place online; instead Sather invoices the customer who then pays at delivery.

"If you don't have an online ordering feature, you're missing the boat," Sather warned. "But, if you aren't committed 100 percent to an online ordering service, it might not be successful either," he concluded. ◀

## Internet Coffee Service vs. OCS Online Ordering Service

An online ordering feature should not be confused with Internet Coffee Service (ICS). An OCS online ordering service is specifically for an OCS company's local/regional area; the route driver delivers the pre-ordered product just approximately within a 50-mile radius, or more in rural areas. The service creates efficiencies for the OCS company and convenience for its customers while still maintaining a 'face to a name' relationship.

ICS differs in that it is e-commerce, or, Internet retailing. After the customer, who is in an unlimited radius, places the order, the operator then works with third parties to deliver the product to the consumer's door. This offering provides different opportunities and challenges for an operation. A full article on the differences of ICS and OCS Online Ordering Service can be found at [www.VendingMarketWatch.com/12166677](http://www.VendingMarketWatch.com/12166677).





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# What You Didn't Know About The VMS Cloud Vs. Server Debate

By Emily Reformat, Editor

Selecting a system to collect and analyze vending sales data might seem like a simple choice between buying a server or paying a fee to use the cloud, but there's more to consider when assessing the best VMS option for your business.



**V**ending management software, or VMS, is an extremely profitable tool for vending operators. It allows them to eliminate time-wasting procedures, analyze sales data to better understand customer buying habits and adjust service schedules to maximize the returns. Currently, VMS is available in a cloud-based solution and what is commonly thought of as a server-based solution. With

the server-based VMS, an operator can buy a license to a particular software and purchase servers to house the data at their headquarters. With a cloud-based VMS, users access the system via a Web browser and data is stored in the cloud. There is nothing physical to buy; the operator instead pays a monthly fee. In order to decide which system is best, operators should consider the advantages and disadvantages

of each along with what questions to ask of the technology provider.

## Server vs. cloud

Brendan Kehoe, vice president, general manager of Streamware, Crane Merchandising Systems, explains that all VMS systems are basically made up of two parts. First there is the client application, or what the users actually use. The second part is the database, this is what receives, stores, processes and sends data. In the past, users used a computer in the office to run the client application which connected to the database, which ran on a server physically on location and owned by the operator.

The use of the server is why many people call it a server-based VMS, although Kehoe indicates the term client-server based VMS is more accurate. VendMAX is an example of a client-server VMS that can be deployed in whatever manner best meets the customer's needs. The server can be physically owned and operated by the vending operator

## What are the bottlers doing?

Bottler-owned and -serviced vending machines are using a new version of an old vending management software. CPI's Easitrax VMS has become Easitrax Advanced, a Web-based vending management system tailored to the bottlers, helping them do a better job servicing their vending machines. CPI feedback from the bottlers that have implemented the VMS is that they have been able to turn around their vending business.

"Coke and Pepsi are doing a lot more outsourcing of third party applications," said Doug Haddon, director of technology solutions for CPI. "Using a VMS has been transformative for their business and bottlers are investing in this technology and how to utilize it for the foreseeable future."

Easitrax Advanced is not offered to the independent vending operator.





(on premise), hosted by a third party value-added service provider such as Tech 2 Success, or, if desired, deployed via the cloud. “We believe in offering flexibility and choice as one size does not fit all,” said Kehoe. “Regardless of the deployment method, VendMAX is always powered by Streamware Connect, our cloud data gateway, connecting to mobile apps, micro markets, cashless processors and telemeters,” Kehoe added.

A fully cloud-based VMS system, however, operates differently. Operators are able to use the client application on a broader number of computers and mobile devices — not a specific computer at the office. “It gives operators access to information anytime or anywhere there is an Internet connection on any computer,” said Alan Munson, co-founder and CCO of Parlevel Systems. This might be advantageous for many reasons. For example, if an issue arises at night or on the weekend, the operator can access the information and see what’s going on whether he or she is at home or at a

**Operators can choose client-server based or cloud-based, or get a hybrid of both.**

child’s basketball game. “This is huge for operators,” said Munson.

### Control & security considerations

“What many people are calling cloud-based VMS is really just a Software as a Service (SaaS) solution,” said Kehoe. “It can be a quick and simple way to get your business up and running but there are usually limitations to this approach.” The SaaS model, while simple, has some shortcomings when it comes to security, availability and control, explains Kehoe. He presents a security example. “SaaS leverages a shared infrastructure to minimize costs — often putting the data of multiple clients in a single database — called a multi-tenant database. If there’s a security flaw, a customer might be able to see another customer’s data,” said Kehoe. This seems an unlikely occurrence, but Kehoe cites the recent scandal that happened in politics with the Bernie Sanders and Hillary Clinton campaigns. Staffers from the Sanders campaign allegedly

took advantage of a software error to access voter information collected by the Clinton campaign.

There is also the danger of an operator suddenly being without access to their information. “Even if a software provider has very strong redundancies built into their systems, they can’t control the operator’s ability to access the Internet,” warns Kehoe.

Finally, a SaaS solution can make it difficult to be in control over data. Integrating with other software applications, such as accounting software, is easier when the operator has full access to the database. Developing custom reports or integrating with analytics software can also be a challenge.

On-premise systems allow the operator a great level of control over data, backups and redundancy systems, further argues Kehoe, instead of relying on the service provider to do it and being forced to accept their choices. Large companies likely already have these in place to protect other data and software, so it is less of a cost or issue for these companies. The IT to deliver the support is already in house. Other operators will find they must weigh the cost of adding IT staff, power generators, backup servers and security technology. For those without the need for that infrastructure, Kehoe suggests using a third party hosting solution to get the best of both worlds — full access and control without the complexity of a big IT organization.

### Cloud security

Proponents of the cloud-based VMS systems believe that it is secure just by its sheer massive use and big names with security know-how. “In a cloud-system, the customers’ data is copied in multiple servers throughout the U.S. The data is protected from natural disasters, is less expensive and virtually unlimited since we lease space from well-known providers like Google,” said Munson. He says most cloud VMS providers

use third parties to house the servers/data accessed via the cloud, so a vending operator's data is housed with data from large corporations using server space from Amazon, Google or Rackspace. Those large technology companies have tight security against hackers, who would likely be after the large corporation data anyway, Munson reasons. More importantly, those companies are experts in creating and supporting ways to keep the data safe as well as insured.

With a server-based VMS, there are limits to the amount of data each server can handle. Data from 5,000 vending machines takes up a lot more space than 500 machines, which means the operator would need to purchase more servers as well as the backup systems and support for each, as he or she brought more machines into the system. In many cloud-based

VMS systems, the operator won't pay more for additional vending machines. By using the cloud, an operator can save money and anxiety, including worries about lost data. Munson tells the story of a recent customer with nearly 4,000 vending machines who used a server system that went down. Unfortunately so did the backup system and the operation lost six months' worth of data. "You're only as good as your system," said Munson.

### Tiered options

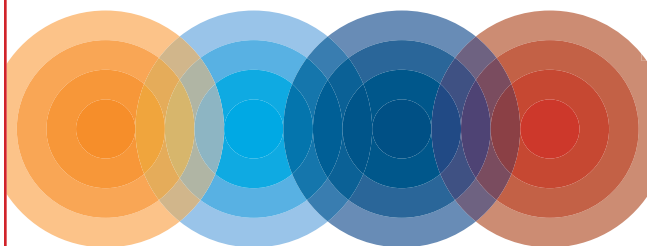
John Hickey, consultant with IT/Operations firm Tech 2 Success LLC, believes the decision often comes down to the size of the operation. "Large companies may still want to have a licensed or server-based VMS if they have an IT department to support the security and integration with other programs," said

## Do I need more Internet for cloud VMS?

Cloud-based VMS systems aren't a drain on the company Internet. "Bandwidth requirements are pretty low, so you don't need king-sized Internet," said Justin Grant, vice president of products, Cantaloupe Systems. He suggests operators get the same level of Internet as they would for home use where people are streaming videos and TV, such as from Netflix. That requires much more bandwidth than a cloud-based VMS and will speed up other operations like email.

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Hickey. “SaaS [used by cloud-based VMS] allows a login through a Web browser and reduces the need for an IT department.”

Even if companies already have servers and an IT department, Hickey recommends they consider a cloud hosted solution in the future. The need to provide security, protection from ever prevalent viruses and hacking as well as redundancies for powering servers, cooling systems, etc. and backup servers with data, can become overwhelming and costly, he argues. “At the enterprise level of IT, items such as security and redundancy are all at a shared cost when hosting database and other business applications in the cloud,” said Hickey. That makes it less expensive for the operator to have superior support for their data. “For IT to build all that in the office, it can cost more than \$100,000.” Tech 2 Suc-

## Perpetual or subscription licensing

Another option to consider with a client-server based VMS is the licensing model. An operator has two basic options, explains Brendan Kehoe, vice president, general manager of Streamware, CMS. “They can purchase the software and retain the right to use it forever [perpetual licensing] or they can purchase the right to use the software on a month-to-month basis [subscription licensing],” he said. Perpetual licensing usually requires the payment of annual maintenance fees for upgrades and support as well. Kehoe suggests operators evaluate the costs based on 5 years.

cess has experience offering a hybrid solution to both large and small operators. It hosts the data in the cloud for vending operators who own a VMS software license. In effect, the cloud has replaced their physical servers.

### The financial lure

Justin Grant, vice president of products for Cantaloupe Systems,

sees mid-size to small vending companies, who don’t plan to hire IT staff, as really liking the cloud-based VMS systems. “When you are a smaller size, you don’t have many other server-based systems,” commented Grant. He argues that these operators are already using other cloud-based storage or business programs such as Dropbox and



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Salesforce, ultimately making them very comfortable with the cloud.

According to Grant, cloud-based systems are at less risk of getting a computer virus or needing the additional costs of backups, monitoring tools, labor cost of the IT person, hardware updates, etc. All of that exists, but in a monthly fee that is shared by all the customers of the service provider. “You have to look at the labor, power, time and risk,” said Grant. “Cloud systems take some of the costs that are hard to see and unpredictable in a client server and license VMS, and makes them so they can be seen and planned for in the future.”

Additionally, when an operator is searching for a cloud-based VMS, he or she must really consider the working relationship and trust in the VMS provider. “This is even more important with the cloud as it’s a long-term partnership,” said Grant. The cloud VMS should meet the needs of the operation today, including getting data out easily and in a usable format, such as an Excel spreadsheet.

### Features are important

An operator should decide on a VMS on the basis of what he or she would like it to do urges IT consultant Hickey.

## Mobile vs. handheld

When opting for a vending management software, it’s important to consider what type of device route personnel will use in the field. Handhelds have been the technology of choice for data retrieval, but they can be expensive to purchase. The new cloud-based systems have been offering the alternative of using a mobile device, such as a smartphone or tablet, instead of handhelds. “A vending company looks far more technologically advanced if their driver is working on a tablet as opposed to on a phone or on a handheld,” said Alan Munson, co-founder and CCO of Parlevel Systems. Additionally, he argues that mobile devices can provide instant, real-time data when something changes in the field. “For example, say a customer goes up to the route driver and says she lost \$2. He gives her the money and enters the transaction. With mobile devices, there is no need to wait for the handheld to be brought back and cradled,” he said.

“When choosing a system, you have to have a goal,” he said. “It might be to increase revenues, to decrease routes or route efficiency or to improve food product offerings.”

Each company that Hickey has worked with has been a bit different and their preferences are different, but he reminds them that the VMS is a tool and should be chosen for its performance. This also provides evidence of return-on-investment for purchasing the VMS, rather than trying to make it pay for itself after installation, concludes Hickey.

Some features Hickey suggests operators consider are: is cashless offered by the provider; is there the ability to integrate with existing programs like accounting systems or logistic systems; does it work with handhelds and/or mobile devices; what sort of reporting features does it have and does it match what the operator wants; does it have commissary management, warehouse inventorying, dynamic scheduling, etc.; will it integrate or offer integration with OCS and micro market management programs? “In the end, it’s not the cloud that makes software better, because you can put any software in the cloud. It’s the features and integrations that make the difference,” said Hickey.

### Take away

There is a lot more to the cloud versus server debate. There are layers of advantages to each that an operator must weigh carefully when making a decision. Looking at all the features and support a technology provider offers with the VMS is another important consideration. Adding a VMS is expensive, but with the right research and preparation, it will allow the operator to reap greater rewards. | ◀

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**CRANE** MERCHANDISING SYSTEMS

# Don't Feed Those Social Media Complainers, Haters & Trolls



**John Healy** is CEO of Healy Consulting & Communications Inc., a traditional, digital and social media marketing firm that strives to ensure

its clients' relevance while fueling their growth and success. He can be reached at [jhealy@healyco.com](mailto:jhealy@healyco.com).

By John Healy, Contributing Editor



While Haters and Trolls can be problematic, online criticism isn't all bad news. In fact, it offers some unexpected benefits.

According to Social Media Today, “83 percent of B2B marketers invest in social media to increase brand exposure, 69 percent to increase web traffic, and 65 percent to gain market insights.” Those are pretty impressive numbers.

However, stepping out on the “social media ledge” can be treacherous sometimes, especially when negative comments from unhappy customers (or troublemakers) start

appearing in your social media channels, feeds or online forums/blogs. But while such comments and criticism can appear on *any* social media platform, the vast majority are found on Facebook and Twitter.

Such individuals typically come in three types: Complainers, Haters and Trolls.

- **Complainers** are customers, typically, who have had a bad experience and simply want their

complaint resolved, period. If handled well, you won't hear from a complainer a second time.

- **Haters** are typically either insecure or arrogant individuals, who can be customers, but are looking for an audience to vent, criticize, offend...you name it.
- **Trolls** are those who are looking to find fault, and enjoy doing so. Their type dates back to the late 1980s, and they are usually

members of one or more online communities where they intentionally post offensive, divisive and controversial comments.

“The majority of negative comments we receive are from Complainers,” says C.J. Britton, Digital Marketing Manager at Royal Cup Coffee’s headquarters in Birmingham, AL. “We rarely encounter Trolls or Haters, and when we do it’s typically disgruntled employees who post on our Facebook page or in our Twitter feed.”

### Rules of the (social) road

In responding to Complainers, Britton takes a “one and done” approach — one reply, using his brand’s voice (rather than an automated reply) that makes the individual feel as though their online voice has been heard. Then he moves on, not engaging any further.

hear back, expect to hear from you quickly.” Speed matters in social media probably more than in any other marketing channel.

- **Acknowledge mistakes and personalizing responses.** Reply in a non-automated fashion, acknowledge an error or problem, use the customer’s name, and indicate how you will correct or fix the subject of the complaint. If you don’t have an immediate answer, just say so, but promise to reply when you do.
- **Never deleting a complaint.** Deleting negative online comments should NEVER be done. Doing so invites further criticism, and can escalate negative dialogue and, sometimes, invite others to express similar complaints that may otherwise never have surfaced.
- **With Haters and Trolls, move the conversation offline.** Engaging in negative dialogue on a public

same done to you. And certainly, if you suspect that a competitor is behind someone who’s anonymously trolling your channels, then use the “one and done” approach. No need wasting your time engaging in online dialogue with a competitive troll.

- **Finally, experts agree that a lack of response is a response.** No response sends the message: “I don’t care about you very much.”

### Have a plan!

Public complaints don’t actually hurt your business. In fact, they are an opportunity for you to self-correct and fix what may be broken in your relationships with customers. And in doing so, you let ALL of your company’s online followers see that you’re willing to act on customer feedback.

That is why a critical first step in creating a plan (or guidelines) to address online criticism begins with establishing a reliable form of social “listening” and monitoring of your company or brand on social media channels. Google Alerts are a very simple and cost-free way to do so, but there are other tools, such as Mention, Social Mention, Hootsuite/TweetDeck and Buffer.

Your social media policy should clearly indicate who is responsible for responding to online criticism, how soon they should respond, what type of response is warranted given the nature of the criticism, and if/when to follow up.

Keep in mind that your employees will typically be engaging on all of your social media platforms — at home, at work, on their mobile devices — and there’s little you can do to prevent it. So make it clear that they’re not to engage in responding to criticism unless it’s their job to do so.

Assign the responsibility to someone who does not have a short fuse and will not take online criticism personally. Your guidelines should

**“Answer every complaint, in every channel, every time.”**



Many companies and brands adopt a similar protocol, and have formal or informal rules that they follow in dealing with online naysayers. Such rules can include:

- **Responding to every negative post, comment or tweet.** In his upcoming book, “Hug Your Haters,” due out March 1, 2016, social media author Jay Baer says it’s critical to “*answer every complaint, in every channel, every time.*” In a significant survey of consumers, Baer found that slightly less than half the time, critics expect a response from a company or brand. “The good news,” Baer says, “is that half the people don’t expect to hear back from you. The bad news is that those who do expect to

platform like Facebook or Twitter never pays. You want to avoid “mob mentality,” which allows others to join in the virtual slugfest...only making it worse. Take it offline to a private and internal feedback system, such as a customer feedback landing page (simply embed the URL to that landing page in your response). At Royal Cup, C.J. Britton analyzes the severity of every complaint: “I want to avoid a running thread that’s negative, so I either quickly resolve it online or move it offline.”

- **Not using competitors’ online misfortune to your own advantage.** Taken another way, don’t poach your competitors’ customers unless you expect to have the



also clearly state that one person is in charge, with a back-up person designated to jump in when necessary.

Most importantly, know when to escalate an issue that emerges online to operational areas in the company that can better address them, as well as your customer service professionals. Some call it an “escalation plan,” but regardless, your treatment of fiercely unhappy customers or “crazies” should be escalated.

### Enjoy the...benefits?

While Haters and Trolls can be problematic, online criticism isn't all bad news. In fact, it offers some unexpected benefits.

When those who are truly loyal to your company or your brand encounter the work of those who aren't, they will often rise up against them in defense of your quality, your service

and your good name. In some ways, they could be considered your online brand champions. Thanking them and rewarding them in an offline and direct fashion will ensure their continued loyalty.

Without a doubt, addressing online complaints and criticism the right way can enhance overall brand loyalty and customer retention. When you answer somebody, you have a chance to change his or her mind. Royal Cup's Britton says, “If the criticism has to do with one of our products, I apologize and tell them I'm sending a replacement product for them to consider. That generally elicits a positive reply.”

Every time you answer a customer complaint, it bolsters your image vis-a-vis customer advocacy. It takes a bad situation and makes it better. And when you actually interact with

negative customers, you learn things about how your business is perceived that can lead to making your business better.

Erin Pepper, Director of Guest Relations for restaurant chain Le Pain Quotidien, has been quoted as saying that she strives to triple the number of complaints they receive each year in order to learn how she can improve the food, ambience and service in their 200 locations worldwide.

And while we never think this way, a sudden burst of criticism, followed by responses from your social media team and support from your brand champions, can have a positive effect on SEO because, let's face it, your company or brand name is highly visible online. Ironic, right?

In the end, managing Complainers, Haters and Trolls is not the problem, but ignoring them is. | ◀

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# The Hidden Cost Of Micro Markets

By Adrienne Zimmer, Managing Editor

**Industry operators examine unanticipated costs and challenges of entering the micro market segment — and why they are still worth the investment.**

**B**usiness diversification can be intimidating. There are unknown risks in investing and expanding into any new segment: there is no guarantee that the return on investment will be quick, or even happen at all; there are education gaps with learning a new process; and there is no promise of success.

For many vending and OCS operators who entered into the micro market segment, there were anticipated

costs such as the price of a kiosk, shelving and credit card processing fees to name a few. But when it came to the actual implementation of micro markets and day-to-day operations, there were several hidden costs in terms of time and money that became more discernible.

## **Unexpected cost of theft**

Although many operators knew early on that theft in micro markets would

**Micro markets can be a great investment, but they also come with challenges.**

be a point of concern, few anticipated just how big of a cost burden it would be. For Rod Nester, president of Clarinda, IA-based Smith Vending, theft has been an expensive and time consuming part of entering the micro market segment.

When Nester first installed his micro market, he transitioned a vending route supervisor to spend about 60 percent of the time working on promotions and marketing for the company's nine micro markets. In reality, however, the employee ends up spending a lot of that time watching video footage to try and control theft, instead of focusing on improving the customer experience at the market. "We can burn two or three days trying to go through footage and working with clients to resolve theft issues," said Nester. "Pretty soon I'm spending \$400 to \$600 in lost time to catch someone who stole a \$1.50 bag of chips. It's expensive, but I have

to do that or else it will drive me out of business.”

Theft has been more than 5 percent at many locations for Nester, forcing him to commit resources in order to resolve the issue. Not only is Nester losing money in shrinkage, but when his employees have to take on loss prevention responsibilities, they are losing time working on micro market promotions and loyalty features — a main reason for entering the segment in the first place.

“This is an issue that has been building for us and we’re now starting to take action on it and we’ve spent a lot of resource dollars,” said Nester. In order to control micro market shrinkage he invested in biometrics for each market, put in digital billboards on every kiosk and removed and replaced cameras for better visuals. In total Nester says he has spent about \$1,000 per market fighting theft. Now he wonders how long he will have control over it. He worries that even with the new measures he has put in place, it still might not be enough to deter would-be thieves long term. “I’m not sure if my investments to discourage theft will last three months or three years,” he said.

Despite the issues that arise from theft, Nester has a positive view of micro markets as a whole. Micro market sales for Smith Vending showed a steady increase for the past two years, increasing from around \$125,000 in 2013 to nearly \$450,000 in 2015.

Chattanooga, TN-based Five Star Food Service which operates 500 micro markets realized early when transitioning to micro markets that they had to invest in an infrastructure that would support rapid growth. Today the company has 105 dedicated micro market employees, four of whom work full-time on loss prevention. “The employees investigate markets where the shrinkage is more than 2 percent,” said Mark

Stephanos, vice president of micro markets for the company. Five Star Food Service even hired a retired law enforcement officer to work on video surveillance.

### Endless inventory

In vending, an operation has around 40 stockkeeping units (SKUs); in micro markets, that number can be from 150 to 1,500. While many see this as an opportunity, others have found that increased inventory can cost time and money not accounted for when first getting into markets. “Entering new products, deleting items out, keeping on top of pricing; that is a task in itself,” said Pete Johnson, food & beverage manager of Quail Mountain Vending in Klamath Falls, OR. “The sheer labor cost of changing inventories and backend work to make sure every product goes into your store and comes out of your store will be surprising when you first get into micro markets.” Inceas-

know what the ROI was,” he said. “We weren’t tracking labor or inventorying markets on a regular basis. It wasn’t until we had six markets that we had to start being proactive and finding where the costs were adding up.”

For Raleigh, NC-based OCS and pantry service provider Capitol Coffee Systems, the increase in inventory meant that the company needed to invest in vehicles, too. “We came from OCS into micro markets and so we weren’t like the vending guys who already might have vehicles to handle frozen product,” said Charles Brunson, chief bean counter. The company started with a standard truck for \$45,000 and then needed to add freezers and coolers, which added an additional \$10,000 that it did not take into consideration when getting into the segment.

The type of inventory offered can have an effect on product management as well, says Tim Taylor, president of Menomonee Falls, WI-based Davians.

**“The sheer labor cost of changing inventories and backend work to make sure every product goes into your store and comes out of your store will be surprising when you first get into micro markets.”**

Pete Johnson, Food & Beverage Manager, Quail Mountain Vending

ing SKUs also increases driver time and the amount of time spent at a location, Johnson warned.

Smith Vending’s Nester cautions operators to take into account the time it will take to monitor the movement of items and track inventory in order to reduce sales. “For the first two years [I was in micro markets] there were so many hidden costs that I didn’t

The company makes its own micro market fresh food in a commissary and has been challenged with managing waste. “Waste is always important in our industry,” said Taylor, “however, in our micro markets one will find fresh products ranging from \$4 - \$7 which has significant impact on our cost of goods if not managed.” For Taylor, the ‘more SKUs the bet-



ter' mentality is dangerous and he recommends operators have specific micro market planograms and define SKUs in order to keep a handle on inventory management.

### Cost of data

Big data means that operators can find out exactly what is selling, where it's selling, when it's selling and in some cases, who is buying it. While some operators enjoy all that big data offers, others don't see the need. Johnson of Quail Mountain, who operates 10 markets through three micro market providers, was surprised by how much he had to pay for what he calls 'extra' data with one provider. "I can see where some operators with dozens of accounts could benefit from the extra data, but for a small to mid-size operation like mine, it isn't necessary," he said.

Kim Curtis, president of Good Stuff Vending in Sacramento, CA, agrees. When she looked into adding micro markets four years ago she was surprised by the cost of the provider fees. Although the cost to enter has come down since then, it was cost-prohibitive for her in the beginning, which is why she ultimately ended up hiring a developer to create her own micro market software. "We don't have 50 or 100 markets — we have three — and the monthly fees I would have had to pay were too high for the number of markets I operate and the revenues they bring in," she said. Recently Curtis transitioned her markets to run on deORO software for a base monthly fee. Despite the cost, Curtis is excited about micro markets and said the investment helped the company grow one former vending account from \$400 per month in revenues to \$1,500.

The amount of data provided was one catalyst for why Will Steppe, president of Platinum Food Service in Alexander, NC, decided to reinvest in micro markets a second time.

## 3 Tips For Getting Into Micro Markets

**CHOOSE YOUR PROVIDER WISELY**

"The company you choose to go with is key," said Kim Curtis of Sacramento, CA-based Good Stuff Vending. She recommends speaking with operators from all micro market providers and discussing the benefits and challenges of each system, as well as the costs. "Do your homework before you commit," she said. "See a market in operation, call multiple customers and see what is best for your business."

**GET EDUCATED**

To learn how a market works, Pete Johnson of Quail Mountain Vending located in Klamath Falls, OR, recommends getting out in the field before placing one. "Do a ride along with a route driver from another company," he said. "Watch how he or she stocks the market and does inventory." Johnson says that watching for a day can prepare an operator to ask questions later. After a ride along Johnson recommends spending a day or even just a few hours with the person who set up the market.

**ASK THE RIGHT QUESTIONS**

All micro market provider software systems will be different, said Johnson, but there are a few basic questions that operators can be prepared to ask. "You'll want to ask: *How do I access the reports I need to make sound, educated decisions, and how do I balance them?* Also cash control questions like: *How do I track how much money has come out of the kiosk (cash, credit card transactions, credit card fees, royalties, promotions, discounts, bottle deposits)?* Those questions are basic and necessary." Other questions Johnson says operators should take into consideration are: *How do I access cameras? How do I download videos and variance controls? Data entry for UPC codes, promotions, etc.?*

Steppe originally began with one provider who had a robust backend that was built for operators with a lot of accounts, he said. The amount of data was overwhelming for Steppe and he didn't want to pay for the data he wasn't using. "It was hard to switch because I was familiar with my original system and I had purchased the kiosks and displays but the cost to switch was worth it for me in the long term," he said.

It wasn't just the data that turned out to be a challenge for operators; it was other technology, too. When Steppe began with his first micro market provider he had to purchase a physical server with a static IP, which lifted the market \$6,000 over the original price. "I could only put so many micro markets on the server,

too, so if I were to have grown bigger with the company I would have been faced with purchasing more servers." It was a cost Steppe did not anticipate, which made his switch easier. With his provider now the information is in the cloud and isn't limited by how many markets Steppe installs.

Internet integration at locations is an issue that every operator will most likely face, too, said Five Star's Stephanos. Most times, locations don't want to give operators access to their network. "We have a detailed checklist every time we get ready to install and we always have a problem getting the Internet connection," said Stephanos. "It is extra time spent discussing with the location about the safety of the connection. And we usually have to find our own solution."

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The costs of data will vary by supplier, but shouldn't be a deterrent when deciding whether or not to get into micro markets because the investment into micro markets is oftentimes significantly less than a vending installation.

### Savvy operators

Despite the sometimes-invisible costs of micro markets, operators agree that when it comes to placing vending or a micro market, it can be done for a similar price, depending on the location and the equipment. "If you're at a small location where you have the ability to put refurbished vending equipment, a micro market would cost more," said Curtis. "But anytime you get into a decent sized account where you would put brand new vending equipment, a micro market will be cheaper." Curtis points to a

### State licensing

For Rod Nester of Smith Vending in Clarinda, IA, one of the biggest costs of getting into micro markets is licensing the markets with the state. "In the state of Iowa, we have to buy a convenience store license for every single market, each year," he said. "That's a substantial fee up front in the neighborhood of \$300 per market per year." The state also requires physical documentation of each market, which means more time spent on paperwork, signing and filing logs, filling out applications and scheduling visits with inspectors.

Although this is not the case in every state, it is a cost that Nester warns operators to investigate. "It takes time and time is money," said Nester.

recent example. "I just put in \$20,000 in new vending equipment at a location. A micro market wasn't a good fit, but if it had been, it would have only cost about \$12,000 and I would have made a faster return on investment." The upstart cost to micro markets depends on a variety of fac-

tors, though, said Capitol Coffee's Brunson. "We spent a fortune the first few markets," he said. "We bought everything and financed coolers. After five markets we stopped and said 'the numbers aren't right' and we started leaning on vendor partnerships for equipment and

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shuffled how we went to market to make it most cost-effective.” Brunson learned that using smaller equipment, like freezers, can dramatically affect the ROI. “With smaller freezers there are less options but it is cheaper by a long shot.”

Micro markets have also evolved enough to the point where operators can make them cheaper through manufacturer partnerships, too. “If you use bottler equipment a micro market can be a lot cheaper than if you were to buy your own stuff,” said Johnson. Manufacturers will sometimes also give operators free wire racks if the operator promotes their product.

### Sound investment

With three years worth of micro market data to review, Johnson isn’t concerned with whether vending or

micro markets cost more or less — he knows the answer. “If I took a 500 person account and had the opportunity to put a micro market in, I would never ever go back and put vending in, no matter how much it cost to put in a market,” he said. “Your sales increase period. We’ve seen substantial increases in sales moving from vending to a micro market.”

He is not alone. Operators around the country are finding that the investment in micro markets are generally lower than in vending and they can charge a higher price for the same items; maintenance costs are less without machine failures and for many there is no talk of commissions, unlike vending.

“I was very skeptical when I was first introduced to the concept, but now I couldn’t picture our business without markets,” said Tom Bach,

general manager of Sirness Vending located in Rochester, NY.

What surprised Good Stuff Vending’s Curtis wasn’t really the hidden cost of a micro market, but the hidden revenues. In a micro market, consumers are more likely to purchase more than one item at a time; they are freer with their spending, Curtis said, which in turn helps drive revenues. Locations are also more loyal, Curtis has found. “Once a client gets 300 people on your micro market system, I have found that they are more likely to stay with you,” she said. “Once you get in, they aren’t so quick to change.”

With any new investment or company diversification there will be unforeseen obstacles but the companies that stick by the investment will reap the rewards — and lead the industry into a new era. | ◀

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# NAMA Anticipates Largest OneShow In History

By Adrienne Zimmer, Managing Editor

**With an enhanced educational agenda, a unique opening session and more exhibitors than ever before, the 2016 NAMA OneShow promises to be an exciting experience for every attendee.**

**I**n 2016, Chicago, IL-based NAMA celebrates its 80<sup>th</sup> anniversary and brings home the premier event for the vending, micro market and office coffee service industry: the NAMA OneShow. With each passing year, the NAMA OneShow delivers more value for attendees and exhibitors alike and this year is no exception, said Dan Mathews, NAMA executive vice president & COO. With nearly 75,000 square feet of exhibit space almost sold out plus surprise rollouts and unveilings scheduled throughout the event, this year's OneShow is poised to be the biggest in history.

## **Spark of entrepreneurship**

Throughout the three-day event, attendees will have the opportunity to explore

more than 260 exhibitors — up from last year's number — including 50 new exhibitors. “There will be plenty to see, including many fantastic exhibitor product launches that will take place on the show floor,” said Mathews.

OneShow attendees will also have the opportunity to witness new product concepts firsthand in a unique opening session that seeks to inspire the entrepreneur in every viewer.

This year's NAMA OneShow opening session, sponsored by PepsiCo, will feature Lori Greiner and Robert Herjavec from ABC's hit TV show *Shark Tank*. Teams will have the opportunity to present their refreshment services industry-related business ideas in front of the judges and the NAMA OneShow crowd — the winner of the competition will receive a \$10,000 cash prize up for grabs to continue their business innovation. “Many people in the vending, micro market and OCS industry are entrepreneurs; they have

## **Break Zone**

There will be a break zone with a full micro market for use so attendees have the chance to see one live in action.

started their own business, launched their own products or both,” said Mathews, “so this is an exciting opening session opportunity that is unique for the OneShow and one that will appeal to many attendees.”

## **Millennial, international attraction**

The unique opening session is just one way that the NAMA OneShow delivers new value. This year the NAMA staff is also focusing on attracting a larger international and non-industry attendance as well. “The industry has expanded and the show floor will reflect that,” said Mathews. “We want to show attendees, NAMA members and non-members alike, the progress that we have made and the work to be done.”

The NAMA staff is encouraging university personnel and hospital staff to attend the show in order to

**This year's NAMA OneShow opening session, sponsored by PepsiCo, will feature Lori Greiner and Robert Herjavec from ABC's hit TV show *Shark Tank*.**



educate decision makers and professors who teach about the refreshment services industry. “We want to show that vending has evolved, and introduce decision makers to the new technologies, healthy offerings and refreshment options available in our industry,” said Mathews. This focus is also meant to help students — Generation Z and Millennials who are early into their careers — look at the vending industry as a viable option. Students who would like to attend the NAMA OneShow will be given a complimentary pass. “We’d like students to consider our industry,” said Mathews.

The location, said Mathews, makes the OneShow a desirable and convenient show for those near and far. “Chicago is centrally located,” he said. “We get a lot of registrations because people can easily drive here. For the out-of-towners, we have a wonderful international airport as well.”

### Education-centered

Alongside new products and networking opportunities, attendees can expect an enhanced educational

## Events

For a complete schedule go online to [www.nama-oneshow.org/schedule](http://www.nama-oneshow.org/schedule)

program. In 2016, NAMA will be bringing back the highest rated education session leaders including Dr. Michael Kasavana who will present on the trends in vending and micro markets; attorney and NAMA Knowledge Source Partner Heather Bailey who will be presenting a session on the latest industry laws for OSHA compliance, labor laws and more; industry consultant John Healy who will present on social media in vending; and Michigan State University Professor of Information Systems Dr. Cheri Speier-Pero who will be presenting on how to use data to improve business results.

Mobile marketing group Field Agent will also be presenting critical vending issues of the 21<sup>st</sup> century along with micro market marketing, merchandising trends and new products.

Due to its popularity in Las Vegas, NV, at the 2015 OneShow, this year NAMA will also continue its small operator round table which focuses on issues pertaining to the small-size vending operation. “We will also host sessions on ways to use beacon technology to engage shoppers; advocacy; as well as a nutrition and FitPick session,” said Mathews. “We encourage attendees to bring a lot of employees to maximize education sessions.”

Another bonus for attendees? Pertinent micro market education and information. At the OneShow, NAMA will be rolling out MASTERING MICRO MARKETS [An Operations Manual for Increasing Profitability in Micro Markets] with benchmarks and startup information that will help new and veteran micro market operators alike. “It’s a great resource for operators,” said Mathews. “The manual goes in depth in micro markets and at the end of each chapter there are marketing tips to act on the information given.”

Whether attendees are looking to explore emerging trends, gain skills from education sessions, build an industry network or all of the above, the 2016 NAMA OneShow will have everything they need to build their business and brand in the 21<sup>st</sup> century vending, micro market and OCS industry. | ◀

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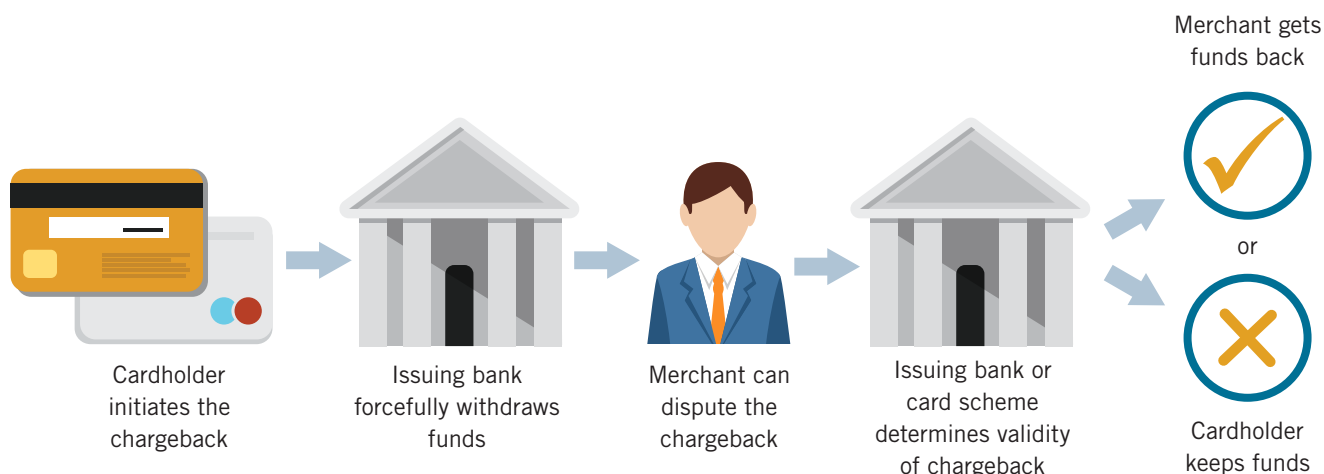
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Source: Checkout.com

# EMV & Chargebacks: What We Know So Far

By Emily Reformat, Editor

**Some operators report higher chargeback fees since the EMV liability shift, but industry experts say it's not time to panic or pull card readers.**

**A**n event started occurring in November 2015 that looked like it had the potential to hurt the vending industry. Operators started to receive chargeback fees on cashless transactions where an EMV (Europay, MasterCard and Visa) card — commonly known as a “chip card” — was used to pay on a non-EMV compliant device and later challenged. The chargeback fees were more than 10 times the cost of the product being purchased. Often there were fees for multiple transactions made using the same account number. One mid-sized operator showed me emails from his processor, with these fees, and wanted to know why.

Chargeback fees normally result when a credit-card provider demands that a retailer/merchant make good the loss on a fraudulent or disputed transaction. However, this operator had never received so many charge-

backs in one month. The increase appeared directly related to the recent “EMV liability shift” which made merchants responsible for some chargebacks that had previously been borne by banks or card brands. The operator knew about the liability shift, but he had been told that it would have a small impact on his vending business.

So what happened? The answer, as it turns out, is complicated. None of the major card brands responded to multiple requests to comment. So we turned to industry experts who know the cashless arena and how this issue is affecting vending firsthand.

## The problem is fees

First, Glenn Butler, general manager for Nayax North America and longtime industry veteran, wrote a blog for [VendingMarketWatch.com](http://VendingMarketWatch.com) explaining about how EMV had come

to the U.S., thanks to a liability shift from card companies to retailers or banks if they did not offer an EMV card. “In fact, this October was considered the real EMV milestone for the U.S.,” said Butler. “The credit card processors have now switched liability for fraudulent credit and debit charges from themselves to banks and merchants if they do not offer EMV cards and card readers, respectively. That could include vending operators who do not have an EMV compliant card reader on their vending machine.” However, the potentially huge and unforeseen problem this liability shift caused was the issue of chargeback fees.

“I recently talked with a payment industry contact to fully understand the chargeback issue as it relates to EMV and vending,” said Butler. “He explained that when an EMV credit card used at a vending machine is later reported stolen, operators have to eat the transaction cost, which we knew. However, operators also get charged a ‘chargeback’ fee by the cashless processor. The fee is per transaction, not per card or customer.”

In his blog, Butler used the example of someone who buys 30 \$1.50 items from a vending machine before the EMV card used is reported as stolen. This results in the operator paying not just the \$1.50 for each of the products from the transactions, but also \$25 *per transaction* for the chargeback, or roughly \$45 in product costs and \$750 in chargeback fees. “It’s a huge issue and just as real for micro market operators who do not have EMV compliant card readers on their kiosks,” said Butler.

These fees are based on a few assumptions; such as the card has an EMV chip and that the card reader is not EMV compliant. If the credit and debit cards used by the consumer don’t support EMV, then the liability and fees would go to the bank, not

## Will consumers switch to mobile to avoid EMV?

**Maeve McKenna Duska, senior vice president of marketing for USA Technologies, sees the rapid adoption of EMV in the U.S. and the associated liability shift for fraudulent transactions as a driving force towards more mobile payments. Why? Well, because consumers will be forced to change their behavior, and once they are faced with that fact, they will opt for a simpler transaction.**

**The case is made in a BAI Banking Strategies article, Duska cites, “EMV Loss May Be Mobile Wallet Gain.” The author concludes that with the new cards, consumers find the process slow, confusing and often frustrating. Instead of a quick swipe, the card must be inserted and then the consumer must wait for the payment to be confirmed, and often even have to enter a PIN. Yet another PIN to remember, or forget, can lead to consumers being frustrated and retailers losing the sale. The article argues that tap and pay using NFC or mobile wallets may likely be a more attractive option to consumers. It’s faster and equally as secure.**

the operator. Also, Butler reports that the major credit card associations and banks are working on the issue, but that, as of the end of 2015, chargeback fees, in some cases, were significant. “I know of one vending operator who received \$11,000 in chargebacks in one month and the liability shift that led to these fees only happened in October. We’ve barely scratched the surface of this issue,” said Butler in his blog.

Chuck Reed, CPI’s senior director — sales & marketing, vending Americas, commented that while CPI isn’t involved in helping operators establish merchant agreements where these chargebacks would be listed and negotiated, he was surprised to hear about the charges. “I don’t believe anyone anticipated such a high dollar amount,” he said.

## Don’t panic about EMV

While the chargeback fee issue does exist, industry experts suggest that the impact may be limited to a small number of transactions. Also there’s hope that the problem may, in time, be alleviated. However, in the meantime operators may want to learn how to investigate and dispute chargebacks.

“Fraud on vending purchases has always been very low in the vending channel. Even after the liability shift, we’re not seeing a big uptick in chargebacks due to actual fraud,” said Justin Grant, vice president of products for Cantaloupe Systems. “However, we’ve seen a moderate increase in chargebacks due to mistakes made by banks in labeling legitimate transactions as fraudulent. In these cases, legitimate transactions were made on a card that was later cloned, lost or stolen. We’ve been helping our customers dispute these chargebacks.”

Grant admits that these observations are from a limited sample size as the liability shift is so new. Still, he has seen the problem firsthand. One of Cantaloupe’s customers, a medium-sized operator in the Midwest that generates about \$1 million in annual cashless sales, got a \$125 chargeback fee in his last statement. The chargebacks covered 5 transactions from one card number.

Using the Seed Cashless web application, the operator searched for transactions matching the supposedly fraudulent card number shown on his card processor’s merchant statement, according to Grant.

The transaction history showed that this card was used at only one location and was used to buy the same products around the same time every day for several months before fraud was reported. Although the card account had been cloned, this transaction history showed that a real card (not a cloned card) was used to make those vending transactions before and during the period while the cloned card was also being used somewhere else. Clearly the bank that reported the fraud had lumped the legitimate vending transactions in with the illegitimate cloned-card transactions that happened at the same time.

“The operator then disputed these chargebacks with the processor, sending them an Excel export of the transaction history including dates, times, locations and products purchased,”

**“This data clearly showed that this was the legitimate card being used consistently over time. The operator expects to get the chargebacks reversed.”**

Justin Grant, vice president of products for Cantaloupe Systems

said Grant. “This data clearly showed that this was the legitimate card being used consistently over time. The operator expects to get the chargebacks reversed.”

Grant offers the following takeaways for operators running non-EMV readers on vending machines:

First, while the banking system gets used to the new liability shift,

there will likely be more mistakes than usual as the humans and software that make up the banking system learn the new process. As the new system matures, bogus chargebacks like the one described earlier should happen less often. But for the next few months at least, operators should watch their processor statements carefully and expect that pro-

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cessors and upstream banks will send mistaken chargebacks.

Second, just because an operator gets a chargeback doesn't mean they have to pay it, argues Grant. Operators should learn how to dispute chargebacks. If the real card was used for a transaction, it's not the operator's liability. Ask your processor or your cashless provider for details about the dispute process.

Third, cashless providers vary in the tools they provide to help an operator dispute chargebacks. Operators should make sure their cashless supplier provides reporting tools that make disputing chargebacks easier. Here's what Grant suggests they look for:

- The cashless system should be able to search for historical transactions using the masked card number that the processor provides (e.g. 423456\*\*\*\*\*7890)

and should be able to return several months of historical transactions to establish a pattern of use before the fraud occurred.

- Ideally, the transaction history should list the product purchased and location of each transaction. It's much easier to dispute if you can clearly show this information. If all you have is Terminal IDs and prices, it's harder to document your case, because you'll have to manually look up each product and location in your VMS, which is a time-consuming process.
- It should be easy to export the transaction list to Excel or email so you can send the results to your processor.

#### Affects a small percentage

Maeve McKenna Duska, senior vice president of marketing for USA

Technologies, indicates that historically chargebacks are negligible, less than 0.0001 percent of the close to one million transactions passing through the USAT network each day. The percentage is even less for transactions under \$10. "It's so low, we have never pushed the chargeback fee back to one of our operator customers," said Duska, although legally, the operator is ultimately responsible for the fee.

Really, the issue with the liability shift and EMV cards only relates to counterfeit cards, Duska reports after conversations with USAT contacts at some of the major card brands. "What operators need to know is that merchants already held liability for a lost or stolen card and are subject to a chargeback fee when an inquiry is opened. With EMV and the liability shift, it just adds counterfeit cards —

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when a duplicate copy is made and used,” she said.

“Since the liability shift in October 2015, USAT has only seen chargebacks increase slightly — by thirty six dollars total over our entire universe of transactions so far. We continue to monitor this, but don’t expect an appreciable increase going forward because of the nature of the small-ticket markets we serve. Credit card fraud most often occurs online or for larger, more expensive items in traditional retail stores,” Duska explained.

However, Duska does see EMV cards affecting the future of cashless in another way. “It’s my belief that consumers will leap over paying with EMV cards, which produce a more complicated transaction, right to mobile payments,” she said.

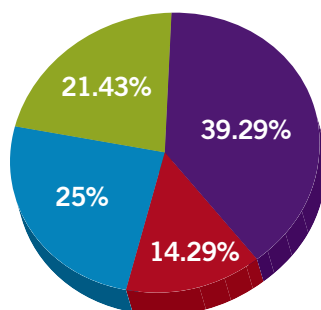
There are a number of reasons why EMV might be the push mobile needs. For one thing, since a mobile payment uses near field communication (NFC) standards, the cashless transaction is EMV compliant. “Consumers paying with a mobile device means the operator is now in EMV compliance,” said Duska. Colleges and university campuses, which were named in some early EMV chargeback fee reporting as potentially high areas of fraud, are the quickest adopters of mobile payment, reports Duska. “In the end, upgrading to an EMV compliant reader is a business decision. Every operator must balance the risk versus benefit for their business and invest accordingly,” said Duska. “That might include encouraging consumers to make payments via mobile.”

NAMA, the association serving the vending and refreshment services industry, hasn’t heard complaints about the EMV liability resulting in additional chargeback fees for operators, concluding that if it is happening, it’s not very prevalent. NAMA Knowledge Source Partner on vend-

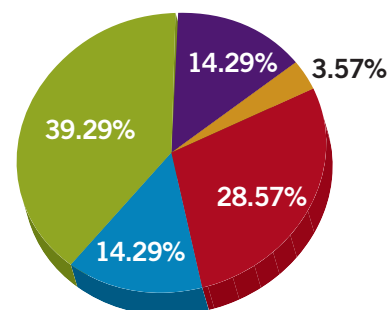
## Operator response: Impact of the chargeback issue related to EMV cards at non EMV readers

● No impact at all ● Not much impact ● Unsure of the impact  
● Somewhat significant impact ● Greatly significant impact

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Source: VendingMarketWatch.com

ing technology, and MSU/NAMA Endowed Professor — Emeritus, Michael Kasavana, said, “With regard to chargeback fees associated with EMV cards, I can honestly say that to date, I have not heard of a single case in the vending, refreshment services or micro market channel.”

Kasavana suggests this could be due to a number of factors, such as that EMV is not yet widely used as well as some zero liability initiatives that would result in the fees being under reported. He remained unable to indicate if this situation would significantly impact the vending industry, but there will likely be discussions or adjustments to the chargeback fees coming in the future. “With the implementation of EMV, the card associations were supposed to have published new chargeback codes and fees,” he said. Unfortunately, at least two of the major card brands’ counterfeit transaction codes don’t appear to include this information [as of press time]. Also, chargeback fees themselves will be analyzed. “The key statistic [card associations look at] is the chargeback ratio,” Kasavana said. “...the ratio involves dividing the number of chargebacks by the number of transactions within a given time period.” The ratio is often used

to evaluate if a chargeback rate for a channel’s transactions is too high or low...as a general rule, a chargeback ratio of less than 1 percent is considered the norm. “Hence, an excessive chargeback fee might be applied a first time, and then evaluated for future applicability,” finished Kasavana.

### Future outlook

What precisely the EMV card, liability shift, and resulting fees mean for the vending industry is still being determined. Previously, many operators and experts didn’t believe the EMV liability shift would really affect vending all that much, since the likelihood of fraudulent cards being used to buy drinks and snacks is very low. However, the fees associated with vending transactions mistook for fraudulent charges has opened some eyes. Unfortunately, the result is more work for the vending and micro market operator. It is imperative that operators monitor their financial statements and challenge chargeback fees on transactions that clearly are legitimate. With the banks’ efforts to adapt and card associations working on codes and monitoring/adjusting fees, this will hopefully just be a bump on the cashless learning curve soon smoothed out. | ◀





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# A Good Balancing Act Leads To OCS Success

By Emily Refermat, Editor



OCS is still poised for growth for those who can balance today's emerging trends.

**From turbulent local economies to evolving consumer habits, OCS operators must stay nimble to win in today's office coffee service industry.**

**W**orkplace coffee has been a growing segment for years; ever since consumers began incorporating gourmet and specialty coffee drinks into their daily lives and paying the higher price for better quality. OCS operators have been able to sell more coffee as well as ancillary products that complement a premium breakroom experience. However, the segment requires more than a “one and done” sales approach, with its specific and often regional differences. There are opportunities and challenges and this is how a group of top OCS providers adjusted their service accordingly.

## Local business climate changes

Because the industry provides refreshment for employees, it is tied very closely to local businesses, affected by their profits and losses. That's why it's important to stay ahead of economic trends in your area to avoid being unprepared for changes. That was a very recent lesson for Kevin Searcy, operations manager at Golden Brew Beverage in Odessa, TX, where 65 percent of his OCS customers are connected to the oil industry. “2015 was a rough year for us,” said Searcy. His sales had been steadily climbing with soaring OCS budgets of \$45,000 to \$50,000 per year at large oil companies. But when the price of oil dropped at the end of 2014, that all changed. “These large companies halved their OCS budgets,” said Searcy. “Then halved them again.” Golden Brew had to adapt, going away from premium, high end coffees and equipment to a more cost-sensitive solution.

“We have completely removed single cup in large locations. We've moved over to more traditional airpots and drip brewers.” For coffee offerings, Golden Brew began partnering with different distributors that could offer product lines locations would be willing to support. Searcy's team met with different distributors, such as White Bear Coffee in Grand Rapids,

MI, and Community Coffee in Baton Rouge, LA, to come up with some value options. He has met with the locations and renegotiated service contracts; plus given additional training to delivery personnel to deal with turnover in facility managers and how to anticipate the needs of the location in order to ensure they know what the company can offer, especially with a workforce constantly in flux. “We don’t want to lose marketshare to another operator because a location didn’t realize we could offer a product or service that they do,” Searcy said. He’s really focused on ways to keep his customer base through this challenging time, which, based on his research, isn’t likely to start a recovery until much later this year.

On the flip side, Pete Tullio, CFO of World Wide Vending and Gourmet Coffee Services in Van Nuys, CA, has adapted to the success of technology companies in his region with higher end, premium service and product options.

“In our area, the economy is recovering,” said Tullio. “Good employees are valued and want to be kept. Offices are doing much more to keep them than even three or four years ago.”

That means offering new and exciting coffee drink options, such as cold brew and single cup brewers with a variety of blends. Large offices are demanding a coffee experience in the workplace, which has led Gourmet Coffee Services to

number of OCS SKUs Gourmet Coffee Services keeps in its warehouse, increasing the need for good asset management, but it has also been a very profitable addition. “The opportunity is there,” said Tullio, “for providers willing to move out of the old fashioned model and who are very receptive to what offices are demanding today.”

### Online woes

Adapting to local business wants and needs is only part of the balancing act performed by forward-thinking OCS providers. The remainder is looking within to examine if the established business and service models are working today.

For years, OCS was built on a strong service model that focused on creating long term relationships and in-person meetings, but the world is changing. For Howard Chapman, President, Office Beverage Division of Royal Cup, this is what drives him to innovate. “We have been thinking about the overall service model and how it does or does not meet the expectation of today’s Millennial employee and now, more and more, today’s decision maker,” he said. Royal Cup has been examining customer satisfaction from the products it delivers to the way its customers can shop. Through a recent companywide service survey, it found that consumers can love the people and love the service, but still push for a more digital solution. “They want to interact with us on things like service calls and product requests via the Web,” said Chapman.

They want flexibility, but they also want to do what they’ve always done.” Specifically, Royal Cup has had to adapt to consumers who are used to ordering from online retailers like Amazon. They expect to order any day of the week and get the product the next day, according to Chapman. This doesn’t fit with a traditional, full service OCS route that uses handhelds and delivers with a prepacked truck.

Chapman wasn’t alone in noticing this 24/7 ordering and next day delivery expectation of today’s OCS customers. All of the operators at the roundtable have felt the impact of Internet sales. “It’s a double-edged sword,” said Tullio, who knows he loses some items to online retailers or big box stores with strong Web commerce



**“The number one thing we believe in is quick response time.”**

Kevin Searcy,  
Golden Brew  
Beverage



**“Opportunity is there for [those] receptive to what offices are demanding today.”**

Pete Tullio, World  
Wide Vending and  
Gourmet Coffee  
Services



**“We have been thinking about the overall service model.”**

Howard Chapman,  
Royal Cup

## STAY ahead of local economic trends to prepare for OCS changes.

place many bean-to-cup coffee brewers. It also means offering a large selection of coffee from premium to decaf in order to meet everyone’s needs in the workplace. “In order to be successful with it, you have to bring the bean store to the office,” Tullio explained.

A coffee shop isn’t the only thing Tullio has realized California businesses want in their workplace. Food, snack and sundry delivery has also been an important and growing aspect of Tullio’s OCS business under the name pantry service. Pantry service is the delivery of a variety of different products to a location which can include soda, snacks, food, paper products, etc., which are then offered to employees, but paid for by the employer. Pantry service has doubled the

sites. However, Gourmet Coffee Services uses the Internet to maintain a steady communication with its customer base. “We want to instill the thought that we are the first source for any of their office pantry needs,” said Tullio, “and strong customer relationships help.”

Jeff Deitchler, general manager of PrairieFire Coffee, located in Wichita, KS, also feels pressure to change and is concerned about the outcome.

“Online ordering really takes the personal service out of coffee service,” he said. “I shudder to think of the day that it’s totally hands off for our sales and our service people to upsell or present new items. But I’m afraid that’s coming because it is a point and click world we live in.” Deitchler cites the changes in meeting attitudes among decision makers. A few years ago, to get in the door and make a sale, locations preferred in-person meetings. Now, they would rather communicate via email or confer-



**“Our job is to offer and sell service the [way] customers want.”**

Jeff Deitchler,  
PrairieFire Coffee

ence call. “I hope it never depletes the value proposition of the service we provide, but for now, our job is to offer and sell a service in the way the customer wants it. We have to be cognizant of that and adapt to it each day.”

### Delivering service

So how do you ensure customers value your service in a digital-focused environment? Response time, dependability, strong digital ordering technology and delivery flexibility as well as exceptional innovation for a new and exciting breakroom.

“The number one thing we believe in is quick response time,” said Searcy. In his area of Texas, there are many locations in urban sites that have varied coffee stock, often depleting their coffee at random times. Therefore, Searcy has a rotational route driver in the warehouse from 6am to 10am. This is usually an equipment service technician who has also been trained on routes and selling. If a location calls in needing coffee, the rotational person will be sent to deliver it. “Almost every day someone calls in with a delivery need,” said Searcy. He has also embraced the digital side of ordering by creating something unique for his customers. “Recently, we added a smartphone app

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instead of a mobile Website,” he said. The app allows his customers to scan the UPC code on items they need to reorder. It creates the order for them, and also notes the location for Searcy’s delivery personnel. While still in its testing phase, Searcy has high hopes as customers at large locations with multiple break areas can take the smartphone with them and create an order electronically. “It’s been especially helpful with pantry service,” added Searcy.

Royal Cup has also adjusted delivery. In some of its metropolitan markets where there is a corporate campus with lots of breakroom areas, the company assigns a dedicated attendant. That person does the inventory, cleanup, ordering, etc. and is considered part of the service. It saves time for the driver and is more efficient. “We even have some hybrids of this idea where there is an account manager for several accounts that are close by one another, all with very varied needs that you can’t really anticipate.”

Delivery isn’t the only way Chapman has increased service. He has also focused on growing segments within OCS. “Single cup continues to be the number one solution in our new account acquisition by a long stretch,” he said. “Water filtration has also been very successful, especially as leak prevention kits have become better.”

In Kansas, Deitchler impresses customers with service in other ways. “You’ve gotta show up,” he said. That means always being there when you say you will be and being responsive to comments and requests.” PrairieFire has one phone number that handles all incoming calls. There is a person, not an automated system, who answers 24/7. That person gauges the issue and severity and then makes a service dispatch plan depending on the time of day. “We definitely hang our hat on service,” said Deitchler. In addition to a focus on reacting to customers, Deitchler also makes an effort to be in front of them and partner with local businesses. “We have always done a lot of community activities but we’ve increased our involvement to more groups. It has given us more exposure,” said Deitchler. The company has entered into some new partnerships as a result and strengthened many existing ones.

These OCS providers haven’t succumbed to the industry’s challenges. Instead, they focus on the great people, the energy of the coffee service industry and the new products and service lines that will better meet the needs of their regional businesses. In short, they adapt. Office coffee service will continue to be a growth segment for those who can balance today’s emerging trends. | ◀



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*“As the economy started to find footing again Josh and I sat down and looked at reinventing the company.”*

Lisa Leuchter, co-owner, Snackworks

**Florida Duo**

# **Weathers The Economic Storm** To Grow Business & Profits

*By Adrienne Zimmer, Managing Editor*





## Determined to reinvent and reinvigorate itself, Snackworks, Inc. has built its business back up to pre-recession success through strategic investments and industry partnerships.

**F**or Bradenton, FL-based Snackworks, Inc. hurricanes, thunderstorms and heavy rain are second nature. Depending on the severity of the storm, the vending company — which sits south of Tampa and 10 miles from the Gulf of Mexico — prepares itself for power issues that will most likely impact equipment, kiosks and schedules.

While Snackworks has grown accustomed to handling forces of nature, no amount of planning could have prepared the company for the economic downfall in 2007. Employment decline during the Great Recession was greater than that of any recession in recent decades, reported the U.S. Bureau of Labor Statistics, and the countrywide unemployment rate went from 5.0 percent near the end of December 2007 to nearly twice that amount in less than two years. During that time Snackworks' revenues declined 30 percent, the drastic shift in the economy nearly crippling the company. Josh and Lisa Leuchter, co-owners of Snackworks, decided to look inward and focus on ways in which they could get their company through one of the toughest storms it had ever faced.

Snackworks made the strategic decision to invest heavily in technology to help create efficiencies, made micro markets a part of its offering and began utilizing partnerships that helped the company realize its own strength. Over the last 8 years Snack-

**Snackworks co-owners Lisa and Josh Leuchter made the decision to invest heavily in technology, including prekitting, cashless and micro markets.**



Over the last 8 years sales have rebounded to pre-recession levels and continue to grow.

works' sales have been rebounding to near 2007 levels and in 2016 the company is predicted to have its highest sales year on record thanks to its own reinvention.

### Family-owned business

In 1991, Josh and several family members purchased a company that was a Tom's distributorship, with a side vending component. After one year the family disassociated from Tom's in order to focus on growing their vending and OCS segments. In 1998, seven years after entering the market, Josh and Lisa, who had married into the business, purchased the entire company from Josh's family members and became sole owners of Snackworks with plans for future growth.

Josh and Lisa always knew the importance of diversification and strategic investments. Throughout the late 1990s and early 2000s, the duo was able to grow the company's vending and OCS segments by updating its equipment, acquiring other vending operations and continuing in the

wholesale business where they sold candy and snacks to little league concessions and independent convenience stores for years until larger wholesale retailers entered the market.

Snackworks' success and year over year growth stalled in 2007 despite the company's investments and diversification. In order to get back on track, Josh and Lisa looked deeper into how they could utilize one of their most important investments: technology.

### The value of reinvestment

The Snackworks co-owners had made one of their first technology investments in 2000 when they purchased vending management software (VMS) from Rutherford. "We were always interested in efficiencies and all the features that it could bring for better customer service, as well as internal and operational accountability," said Lisa. "Our mindset is that we don't sell a product, we sell a service." With a VMS, Snackworks could track product sales, have cash accountability and manage inventory. Integrating

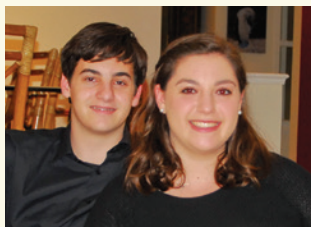


technology within the business did not come without its drawbacks, however. Lisa and Josh saw pushback from route drivers and although there was an increase in revenues in routes after they installed Rutherford, the company ultimately turned over the majority of its route drivers. "It was an accountability issue for them," said Lisa. "They used to do what they wanted and now technology was helping us hold them accountable and many did not like that."

In 2009, several years after MEI purchased Rutherford, the Leuchters looked at the investment they had made and were challenged with a decision: stay with the same provider or reinvest in another system. Snackworks ultimately switched to Crane Streamware. "We weren't keen on reinvesting in another VMS but we knew we needed the increased accountability," said Lisa. "We are really happy with Streamware nearly seven years later and we have fleshed out almost every feature that they have. It has been hugely beneficial for our business."

But they didn't stop there. The company wanted to increase efficiencies even more and so they began to utilize prekitting with LightSpeed's Xpress system in 2014. "The employees love prekitting, because it saves them one to three hours per day," said Josh. With prekitting, Snackworks was able to eliminate the rolling warehouse and cut down the number of routes, which led to more overall savings.

While technology helped manage and streamline the company's backend, Josh and Lisa also wanted to add technology that would benefit the consumer directly. The pair recognized the importance of different payment options at the point of sale, so in 2011, Snackworks made a commitment to offer a cashless option. The company started out with 75 cashless units and monitored the sales. After realizing the significance in increased revenues,



Snackworks' private label coffees are named for Josh and Lisa's children.

## Family owned, family focused

Family is at the center of Bradenton, FL-based Snackworks, Inc. In fact, the company's private label line of Rooster's Coffee comes from the nickname of Josh and Lisa's daughter. "When Richelle was born her hair would never lay flat so that's where we created the concept for Rooster's Coffee," said Lisa. The company offers Richelle's 100% Colombian private label, along with Ethan's Blend named for their son. The family's dogs even have a home at Snackworks, with Taegan and Smokey keeping the office staff company.

Snackworks began rolling out Crane Navigators on nearly its entire fleet. "We'll never be 100 percent cashless for various reasons, but our goal is to be very close to 100 percent," said Josh. "For the locations that make sense we will add a cashless component by the end of this year or early 2017." Today the company offers a cashless option on nearly 75 percent of its machines. "Prekitting and cashless vending combined have increased revenues per route by 25 percent for us," said Josh.

## A different concept

When micro markets debuted in the industry, the Leuchters thought the idea was interesting but decided to

monitor the evolution prior to committing to them. But after more education and research into micro markets, Lisa and Josh knew that this segment would be a catalyst to Snackworks' future success. "As the economy started to find footing again Josh and I sat down and looked at reinventing the company," said Lisa. "We created a new Website and logo and made changes to impact the company visually and mentally to move forward and micro market integration was a part of that reinvention."

The company chose Avanti Markets as its micro market supplier because they liked the features of the system and Avanti ultimately became a preferred supplier of another one of their partners, USConnect. This past December Lisa and Josh traveled to the Avanti micro market operator meeting and enjoyed the connections and learning experiences the event provided. "We were able to meet with other operators and discuss similar challenges and opportunities micro markets bring," said Lisa. It is partnerships like this that have helped Snackworks look forward to the future of the business.

"Micro markets have been an eye opening experience and have helped us look at things in a different way from when we were just a vending company," said Lisa. In just two years micro markets have grown to make up 10 percent of sales for Snackworks.

Southwest Florida is a service-based economy with many medical and hospitality-focused locations, which has had an impact on the types of products Snackworks sells in micro markets. "Beverages are our top-sellers in both vending and micro markets, but fresh food is also very popular with consumers because they can touch and feel the product," said Lisa.

Micro markets have helped the company view vending differently, too. "With all of the products that are available with the advent of the



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micro market, we've been doing complete resets on glassfront beverage machines," said Lisa. "We think of them as micro-micro markets."

The company increased the variety of beverages they offer; they put teas, energy drinks and different juices into the machines. Lisa and Josh have also continued leveraging relationships with bottlers as well, learning demographic information about what products sell best and where. "We are spending a lot of time meeting representatives from bottlers and discussing what sells; and not just the product but the specific flavor profiles of products, too," said Josh.

They focus on changing products frequently to keep consumer interest up. Oftentimes they start out with five or six different teas and as they see what a location likes, they will remove some and increase capacity of another. "Customers love it because they see a change in variety," said Lisa. "And that data has been a positive resource for us."

"Truly the thought process of how we looked at vending changed for us when we became entrenched with micro markets," Lisa concluded.

### Belief in balance

Micro markets have been a great way for Snackworks to highlight its healthy product offerings, too, which the company has made its focus since the early 2000s. The Leuchters have always believed in a balanced lifestyle and were happy to make that part of their business when they created the Snackworks Smart Selections program in 2000. "A healthcare facility had reached out to us and wanted to put together a vending program of better-for-you snacks," said Lisa. "At that time the drums were just beginning to beat on *healthy, healthy, healthy*."

Their early adoption of a better-for-you planogram gave the company a competitive edge over other operators, but in order to keep that edge,



Amanda Glidden and Dawn Lewicki help keep the Snackworks office running.

## Company Profile Snackworks, Inc.

**Headquarters:** Bradenton, FL

**No. of employees:** 20

**Technology provider:** Crane, LightSpeed

**Micro market provider:** Avanti

**Purchasing cooperative:** Unified Strategies Group (USG)

**Promotions, health initiatives:** USConnect

Snackworks has ensured that the company evolves its better-for-you program based on consumer preferences. More recently they adopted USConnect's The Right Choice ... For a Better You program. Without a doubt, Lisa sees their customers requesting healthy snack items and even devoting a larger portion of their machines to better-for-you snacks. "For a while 'healthy' seemed like a fad, but there's no question that people are buying better-choice items," said Lisa. "Is it a lion's share

of the business? No. But is it continuing to grow? Yes." She points to the fact that the quality of items has improved markedly over the last ten years. "Originally people would ask for better-for-you items, but they wouldn't eat them because the taste wasn't appealing. Now they have nut and snack mixes and bars along with flavored teas and waters that are healthy and great quality."

Stacy's Pita Chips and nut mixes are a few better-for-you best-sellers. Snackworks offers two better-for-you planograms for clients as well, so there is choice in offerings and a balance of products. "Our focus is that when it comes to healthy items, we are true to what we say," said Lisa. "We also believe in balance and offering consumers a choice of many different products, both better-for-you and traditional."

### Inner strength through connections

Both Lisa and Josh credit the success and rebuilding of their company to the partnerships they've created along the way. The duo was in the process of investing in technology, creating a new Website and logo and focusing on healthy options and micro markets when they came across Jeff Whitacre's integrated foodservice network USConnect. "We saw articles and announcements for USConnect," said Josh. "We liked what we heard from Jeff and saw many parallels between what USConnect was doing and what we were working towards, including an emphasis on technology, customer-driven focus for marketing and promotions, as well as loyalty programs and a more comprehensive better-choice program."

From a customer perspective, said Josh, promotions are the best feature of USConnect. But internally, the partnership has given the company a built-in nationwide network of like-minded operators who readily share best business practices. "We wouldn't



have had access to some of the insights we get without USConnect operators. It has been a huge benefit driving our business forward,” said Josh. “It’s a pleasure to talk to people who are dealing with the same issues we are and sharing ideas and solutions.”

One of the biggest perks of working with USConnect is the access to a staff nutritionist who creates monthly newsletters on health and wellness topics, which Lisa posts on their Website and sends to clients. “It has nothing to do with vending, but it covers health and wellness and is a terrific resource for customers.” It creates an edge over competitors, too, as it promotes loyalty for Snackworks. Lisa points to one client in particular. “The client likes our dedication to health and wellness so much that they are creating a company Intranet page just for Snackworks, with links to the newsletter and current promotions.”

“In addition through our USConnect rewards program we donate a portion of each sale to charity. We even have the ability to allow customers to select their charity of choice, and that is a feature that everyone enjoys.”

### The local story

Snackworks is proud to be able to offer a complete refreshment services pack-



Snackworks employees Candi Greenwald, far left, Keith Cronin, Andy East and Helen Nardick make up part of a talented staff at Snackworks. In 2015 Greenwald was chosen as the Route Driver of the Year first quarter winner for her dedication and work ethic.

age not available from all mid-size, family-owned vending companies. “I think people are surprised to know what we can do,” said Lisa. “They are surprised that we have every feature, benefit and technology that the big guys have and then some they don’t.”

It has been an exciting couple of years for Snackworks, Josh noted, but there is still plenty of work to be done. In the coming year, the company plans to focus on micro market and vending inventory merchandising, along with

marketing the company and utilizing more technology. “We are planning more micro market, vending and OCS locations in 2016 and will realize our highest volume in sales, with a full rebound from the recession,” said Josh.

More than anything, Snackworks is dedicated to providing the best in customer service. “We are the local story, we are the ownership, and that goes a long way with our clients. Potential customers don’t know what they don’t have until they talk to us.” | ◀

# Marketplace

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