

## ANNUAL REPORT

State of the Office Coffee Service Industry page 26

Up, up  
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The OCS industry  
has grown to a  
new high of  
\$4.96 billion.

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September 2016



*OCS Operator  
Wins In California's*

# COFFEE EVOLUTION

## ASSOCIATED SERVICES

grows 10 percent each year  
through its ability to adapt  
in an ever-changing market.

page 40



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SEPTEMBER 2016

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## BLOGS, PODCASTS & VIDEOS



### ▶ VIDEO: Vending Operators View Industry Outlook As 'Strong'

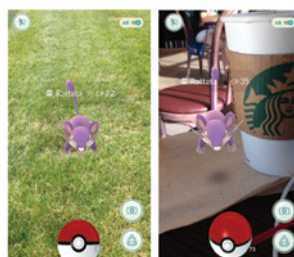
[www.vendingmarketwatch.com/12240528](http://www.vendingmarketwatch.com/12240528)

### ▶ EDITOR'S BLOG: Turn A Negative Into A Positive

[www.vendingmarketwatch.com/12237479](http://www.vendingmarketwatch.com/12237479)

### ▶ SELL MORE STUFF: The New American Diet

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### ▶ VIDEO: Why Design Matters

[www.vendingmarketwatch.com/12240864](http://www.vendingmarketwatch.com/12240864)

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Fort Atkinson WI 53538  
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## BUSINESS STAFF

PUBLISHER **Ron Bean**  
(920) 568-8386  
[Ron.Bean@VendingMarketWatch.com](mailto:Ron.Bean@VendingMarketWatch.com)

MULTIMEDIA ACCOUNT REPRESENTATIVE **Julia Sheade**  
(920) 563-1608  
[Julia.Sheade@VendingMarketWatch.com](mailto:Julia.Sheade@VendingMarketWatch.com)

LIST RENTAL **Elizabeth Jackson**  
Account Executive  
Merit Direct LLC  
(847) 492-1350, ext. 18  
[ejackson@meritdirect.com](mailto:ejackson@meritdirect.com)

EUROPEAN SALES **Julian Maddocks-Born**  
Sales Director  
+44 (0)1442 230033  
[julian@itsluk.com](mailto:julian@itsluk.com)

REPRESENTATIVE, ITSL MEDIA **Benedict Hume**  
Sales Manager  
+44 (0)1442 288287  
[benedict@itsluk.com](mailto:benedict@itsluk.com)

## EDITORIAL STAFF

EDITOR **Emily Refermat**  
(920) 563-1615  
[Emily.Refermat@VendingMarketWatch.com](mailto:Emily.Refermat@VendingMarketWatch.com)

MANAGING EDITOR **Adrienne Zimmer**  
(920) 563-1651  
[Adrienne.Zimmer@VendingMarketWatch.com](mailto:Adrienne.Zimmer@VendingMarketWatch.com)

## SUPPORT STAFF

ART DIRECTOR **Erin Brown**

PRODUCTION DIRECTOR **Steve Swick**  
PRODUCTION MANAGER **Barb Evenson**  
Telephone: (920) 563-1629  
Fax: (920) 568-2392  
[bevenson@southcomm.com](mailto:bevenson@southcomm.com)

AUDIENCE DEVELOPMENT MANAGER **Debbie Dumke**

## SOUTHCOMM, INC

CHIEF EXECUTIVE OFFICER **Chris Ferrel**  
CHIEF FINANCIAL OFFICER **Ed Terman**  
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VICE PRESIDENT, MARKETING **Gerry Whitty**  
DIRECTOR OF DIGITAL BUSINESS DEVELOPMENT **Lester Craft**

## SUBSCRIPTION CUSTOMER SERVICE

877-382-9187; 847-559-7598  
Circ.VendingMarketWatch@omedia.com  
PO Box 3257 • Northbrook IL 60065-3257

## ARTICLE REPRINTS

Brett Pettilo, Wright's Media 877-652-5295, ext. 118  
[bpettilo@wrightsmedia.com](mailto:bpettilo@wrightsmedia.com)



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# PLANTERS





# Diversifying Your Business: The Good And The Bad

Evolve, but don't dilute your best services with too many options.

**I**n a service business, it's easy to get caught up in trying to be everything to everyone. On the plus side, it is one way to get clients to increase how much they spend with your company. It allows you to go after other types of accounts, increasing your revenue potential. Much like diversifying an investment portfolio,

it can mitigate risk when one segment declines (or the fickle consumer heads in a different direction). Companies that don't evolve with the times don't succeed. However, diversifying can have an ugly side.



**DON'T spread your business too thin.**

## The 7-leg stool

In theory, if you offer all possible services, there should be no reason for a potential customer not to choose your business. However, that is not always the case because customers can't define your business

or what you're good at. I read an article where a consultant called this having a 7-legged stool. He argued that a stool only needs three legs, like a good business only needs three strong lines of service. Tacking on more services clutters the message, is unnecessary, and can, in fact, be detrimental. He argued that when potential customers come to your website looking for a specific service, they expect to see it. When faced with a list of 20 other services you provide, they are no longer sure if you are an expert at the service they need. They might just go elsewhere when faced with too many options.

The point is, don't confuse (or annoy) your primary customer with everything you offer on your homepage or in a drop down link. You can have pages that mention your other

services, or perhaps include those in packages, but keep your first impression to your three top service strengths.

## The services to keep

Let's say you agree with me about highlighting a few services. Which ones should they be? It might be obvious to say vending, micro markets and office coffee service, but will those really resonate with your customers? Consider the services you perform regularly, and those sought after by your top clients. Those should certainly be on the list. Conversely, if you haven't performed a service recently, it should probably be removed from your website/marketing materials.

Also look at the cost per service. If one service has a 5 percent margin, and the other a 50 percent margin, it makes sense to highlight the second one. Knowing the cost of the services you provide is extremely important. Otherwise, how will you know what to charge for your services?

## A necessary practice

Diversification comes with risks and rewards no matter the industry. However, as far as vending, micro markets and office coffee service is concerned, workplaces continue to evolve, and consumer demands continue to change. This encourages operators to diversify — a good strategy as long as it strengthens the operation. Don't crowd your marketing message with too many "and we also do..."s. Keep them for additions later. It's better to be good at something up front, then possibly good at lots of things the client never asked for. | ◀

**Clarification:** In the June/July issue, on page 28, the Micro Market Manufacturer Marketshare chart has a total over 100 % due to operators using multiple micro market manufacturers and choosing all brands used. Data was from the State of the Vending Industry survey.

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## FDA Publishes Vending Machine Labeling Guidance Documents

**T**he U.S. Food and Drug Administration (FDA) announced the availability of a Small Entity Compliance Guide (SECG) and draft guidance to help businesses comply with the agency's final rule on calorie labeling for vending machine foods.

To access the documents, please visit:

- <http://www.fda.gov/Food/GuidanceRegulation/GuidanceDocumentsRegulatoryInformation/ucm513902.htm>
- <http://www.fda.gov/Food/GuidanceRegulation/GuidanceDocumentsRegulatoryInformation/ucm513910.htm>

The SECG is intended to help small businesses comply with the rule and restates the requirements of the final rule in plain language. The draft guidance provides more information and responds to frequently asked questions about the vending machine labeling requirements.

The deadline for calories to be disclosed for food and beverage sold from vending machines is December 1, 2016. Operators must ensure their products have front-of-pack calorie labeling, electronic signage showing calories or other means of signage to disclose the calorie information to the consumer.



Operators can find vending machine labeling guidance documents on the FDA's website.

list of Fastest Growing Private Companies List. Every year, Inc. magazine releases this annual list that ranks the United States' fastest-growing private companies as determined by percentage revenue growth within a three-year timeframe.

"We're very honored to be part of the Inc. 5000 list. I'm especially thankful for our entire team for their immense work and efforts as they strive to constantly work cohesively together and exceed expectations for all of our stakeholders, including our operators, host sites and market users," said Jim Brinton, CEO of Avanti Markets. "The team has done a great job with simplifying operations processes, providing helpful training and education tools to our operators, improving customer service, elevating the brand and more."



### Coastal Canteen, USAT Expand Relationship

► USA Technologies, Inc. announced the initial results of an expanded agreement with Coastal Canteen Vending and Food Services Inc. (Coastal Canteen). USAT is currently upgrading the company's 1500 machines to its cashless technology platform and telemetry services, enabling the company to track the acceptance of cash, credit/debit cards, and mobile wallet payments. To date, with approximately a third of the deployment completed, Coastal Canteen is initially reporting cashless usage at 32 percent of average machine sales.



### Nayax Acquires VendSys

► Nayax has acquired VendSys, a developer of cloud-based vending management software. VendSys has more than 150 vending customers primarily located throughout the U.S., ranging in size from 5 to 15,000 vending machines.

The acquisition underscores Nayax's plans to strengthen its U.S. presence.

"VendSys is excited about this new milestone for our company," says VendSys President John Davies. "Nayax has the most up to date hardware and payments service platform around the world for cashless unattended retail payment solutions. They perfectly complement our software for the VendSys customer base. Moreover, it opens up several international markets for VendSys. There is a tremendous syn-

ergy to be gained between our two companies and it will enable us to quickly offer fully integrated best in class end-to-end solutions."



### Avanti Markets Inc. Lands On Inc. 5000's Fastest Growing Private Companies List

► Avanti Markets Inc. announced its placement on Inc. magazine's Inc. 5000





## Cott Announces Acquisition Of S&D Coffee And Tea

▶ Cott Corporation announced that it has entered into a definitive stock purchase agreement to acquire S&D Coffee, Inc. ("S&D"), a coffee roaster and provider of customized coffee, tea, and extract solutions to the foodservice, convenience, gas, hospitality and office segments in the U.S. Ron Hinson, S&D's chief executive officer, and S&D's leadership team, have agreed to join Cott and continue to lead the S&D business.

S&D is a growing business with more than \$550 million in estimated 2016 revenues. The acquisition broadens the distribution platform of Cott's existing DS Services coffee business in the United States by adding a leading scale platform with in-house roasting, grinding and blending capabilities alongside a national distribution system.



## PayRange Inc. Partners With AFV

▶ PayRange Inc. has partnered with American Food & Vending (AFV) on an enterprise agreement to deploy PayRange BluKey™ devices

across its 50 branches serving 35 markets throughout the United States. This rollout comes on the heels of two separate and highly successful pilot programs conducted by American Food & Vending.

"We started an initial pilot program with PayRange late last year to see if the good things we'd been hearing would be applicable for our locations and our customers," stated Josh Wells, principal of American Food and Vending. "The initial pilot performed far above our expectations so we asked PayRange to work with us on a second pilot in a different market to validate the results. The second pilot performed just as well, and we were sold on deploying PayRange broadly across the markets we serve."

## 365 Retail Markets Partners With McCarthy Capital

▶ 365 Retail Markets announced that it has partnered with McCarthy Capital Fund VI ("McCarthy Capital") to continue its global expansion.

The investment will support 365's plan to increase marketshare, introduce state of the art technology, and expand globally. "McCarthy Capital is a natural fit because of their partnership philosophy and our mutual desire to continue to innovate while providing the highest level of customer service in the marketplace," said Joe Hessling, founder and CEO of 365 Retail Markets. "I am especially excited about the opportunity to bring new products to market and drive the company to higher heights."

## People in the News

### Employee First Network Appoints New President & VP Of Business Development

Employee First Network welcomes Bud Ostrander and Jon Ford as the company's president and vice president of business development, respectively. Ostrander will be responsible for all day to day operations. Ford will be responsible for driving revenue, contribute in product, vendor and partner selections, as well as general management responsibilities.

### Dole Packaged Foods, LLC Promotes Keith Weiner

Dole Packaged Foods, LLC announces the promotion of Keith Weiner to director, national accounts. Since joining Dole in 2013, Weiner has demonstrated an aptitude for cultivating new chain business while expanding purchases from existing accounts. In his new role, Weiner will maintain key accounts and reassign others to national sales team members.



Weiner

### CAMA Announces 2016 Industry Award Recipients

The Canadian Automatic Merchandising Association announced that the Don Storey Memorial Award will be presented to Lorna Kane of Kane's Distributing Inc, St. Catharines ON and Distribution QM, Montreal QC. The Stuart Daw Gold Service Award will be presented to Jim Jackson of Quality Vending & Coffee Services, Winnipeg MB. The CAMA Customer Service Award will be presented to Jacques Dube of McMurray Coin Machines, Fort McMurray AB. The annual awards presentations will be held in conjunction with CAMA Expo 2016 at the Victoria Conference Centre on Friday, September 16th.

### Greg Hug Joins Server Products As Engineering Manager

Server Products is pleased to announce the hiring of Greg Hug as engineering manager. In the capacity of Engineering Manager, Greg will lead Server's engineering team in developing new products and improving existing ones. He is a proven professional with more than 30 years of progressive engineering experience in the design and development of engineered products in the automotive, water filtration and commercial lighting industries.



Hug

# NAMA Foundation Announces 2016 Scholarship Recipients

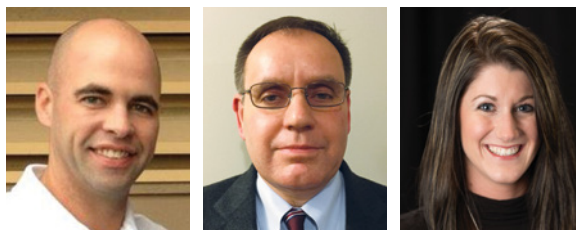
**T**he NAMA Foundation announced the three scholarship recipients of its annual NAMA Scholars Scholarship Program. The recipients will each be awarded full scholarships and a travel stipend to attend the 2016 NAMA Executive Development Program (EDP) at Michigan State University this fall. Each scholarship is valued at \$3,875.

The 2016 NAMA Scholars recipients are:

- Ashilyn Sunderman, Manager, Smith Vending
- Jack Brown, President & CEO, Eagle USA
- Duncan Smith, Vice President & COO, All Star Services

"This year we saw more candidates who were engaged on NAMA committees and special interest groups, as well as in their respective state councils, which really helped the selection committee in choosing among more than a dozen highly-qualified industry leaders," said Lindsey Nelson, executive director of the NAMA Foundation. "The selection committee is confident that the depth of industry experience exhibited by this year's recipients will add to the richness and quality of the experience that have become the hallmarks of this highly prestigious program," she concluded.

The NAMA Scholars program is funded annually through participation in Foundation-sponsored events such as the Silent Auction, CTW golf outing, year-end Annual Appeal, and through voluntary contributions made along with NAMA member dues renewals.



The winners of the NAMA Foundation Scholarship will attend the Executive Development Program.

"Richard Ball has a legacy of strong leadership, passion, and integrity within our industry spanning more than 40 years," continued Rosenberg. "His commitment to his people, brand, and our industry is a model we aspire to follow. We are excited about this new operating territory and the footprint it represents. On behalf of myself and our entire industry, I'd like to personally thank Richard and his wife/business partner Connie on their success!"

## All State Mfg Opens Nevada Warehouse For West Coast Customers

► All State Manufacturing in Terre Haute, IN, announced that it has contracted warehouse space with Extra Express in Las Vegas, NV, to make it possible for customers on the West Coast to have better access to their condiment and coffee stands.

"I am always so frustrated when customers in California, Oregon, Idaho and Washington say they can't order our stands because shipping fees from Terre Haute, IN, are so cost prohibitive," said All State Sales Manager Sandra D Faulkenberry. "Now I can arrange the shipping from the warehouse in Las Vegas or customers can even pick the stands up themselves."

The warehouse will have a variety of All State's most popular stands including the AS272-HT, a 27" inch condiment stand with a four compartment condiment tray on the top which holds two microwaves. It also offers the popular AS492-4, a 49" condiment stand which can accommodate any combination of up to four microwaves, toaster ovens or even a panini maker.

### CALENDAR OF EVENTS

**OCT. 13-15**

**2016 Atlantic Coast Expo**  
Embassy Suites  
Myrtle Beach, SC  
Phone: 919-387-1221  
www.atlanticcoastexpo.com

**OCT. 20-22**

**World Tea & Coffee Expo**  
Bombay Exhibition Centre  
Mumbai, India  
Phone: 91 22 28625131  
www.worldteacoffeexpo.com

**OCT. 26-28**

**NCA Coffee Summit**  
The Intercontinental Miami  
Miami, FL  
Phone: 212-766-4007  
www.ncausa.org

**NOV. 8-10**

**2016 CoffeeTea&Water Show**  
Gaylord Opryland  
Nashville, TN  
Phone: 312-346-0370  
www.coffeeteaandwater.org

**NOV. 13**

**Charleston Coffee Cup**  
Memminger Auditorium  
Charleston, SC  
Phone: 843-724-1196  
www.charlestoncoffeecup.com

**APR. 19-21**

**2016 NAMA OneShow**  
The Venetian  
Las Vegas, NV  
Phone: 312-346-0370  
www.namaoneshow.org



## Accent Food Services Acquires Wes-Tex Vending

► Accent Food Services acquired the vending and office coffee service (OCS) company, Wes-Tex Vending, located in Mineral Wells, TX. "The entire business facility and team members have been integrated into our organization," explained Josh Rosenberg, president of Accent Food Services.



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# A Closer Look At Regional OCS Revenues

By Emily Refermat, Editor

**See how prices compare for both traditional and single-cup coffee in different U.S. areas as well as which segments are growing.**

**I**t's not unusual for local economies, weather and business openings (or closings) to affect office coffee service revenues. To more closely examine these local differences, especially as they relate to raising prices and the cost per cup of coffee, we took our most recent survey data and split it into six regions. Each region does have a statistically smaller sample size than the State of the Office Coffee Service National Report, but it also uncovers trends unique to each area.

## **The Northeast**

In the U.S., OCS providers in the Northeast felt the need to raise prices. A majority, 72.7 percent, indicated they increased the price for the products and services they provide. The average price per cup for traditional OCS, including frac pack served in plumbed-in or pour-over brewers was reported as 4.33 cents, the lowest price compared to all other regions. For single-cup, the price was reported as 29.7 cents.

Pantry service or direct delivery service (food/snacks/beverages delivered to locations) as well as offering janitorial and office supplies were reported by Northeast OCS providers as the fastest growing segments, followed by traditional, non single-cup coffee.

## **The Mid-Atlantic**

Moving down the coast, OCS providers in the Mid-Atlantic area were equally split on raising prices or keeping prices the same. Of course, according to their responses, the average price received for a cup of traditionally brewed coffee was 11 cents, much higher than the Northeast reports. For single-cup, the price was around 33 cents per cup.

Water service was the fastest growing area, according to Mid-Atlantic respondents. Following in nearly a tie for second was pantry service and the addition of janitorial and office supplies.





## Regional Snapshot

	Northeast	Mid-Atlantic	Southeast	Midwest	Northwest	Southwest
Respondents increased product/service prices	72.7%	50%	85%	37.5%	66.7%	73%
Average price per cup for traditionally brewed coffee	4.33¢	11¢	12.6¢	11.8¢	9.3¢	14.2¢
Average price per cup for single-cup coffee	29.7¢	33¢	59¢	51¢	23.3¢	27¢

Data is from the State of the Office Coffee Service Industry Survey reflecting changes in the second half of 2015 and beginning of 2016. The responses were divided into six regions and averaged. Single-cup includes cartridges, flat packs, pods, and beans.

### The Southeast

OCS providers in the Southeast part of the U.S. reported the least amount of revenue increases, despite almost universally increasing prices. Nearly 85 percent said they raised prices in the end of 2015 and beginning of 2016. The average price for a traditional cup of coffee was listed as 12.6 cents. For single-cup, the price was quite a bit higher at 59 cents per cup.

Offering janitorial and office supplies was the fastest growing segment for Southeast OCS providers, followed by pantry service and tea.

### The Midwest

In America's heartland, about a third of OCS providers raised prices, just 37.5 percent. The vast majority reported no change in their coffee prices. For frac pack coffee, Midwest OCS providers are charging an average of 11.8 cents per cup. For single-cup, the average price was reported to be 51 cents per cup.

Tea is the segment growing most quickly in the Midwest, followed by janitorial or office supplies, and then pantry service.

### The Northwest

In raising prices, the OCS providers in the Northwest were nearly the opposite of those in the Midwest. A majority, 66.7 percent, of Northwestern OCS providers reported raising prices in 2015 to 2016. The average price per cup for traditional OCS was the second lowest of all the regions, at 9.3 cents per cup. The price per single-cup was the lowest coming in at a surprising 23.3 cents per cup.

The growth of janitorial and office supplies was by far the fastest growing segment in the Northwest, with tea and pantry service a distance second and third.

### The Southwest

Nearly three out of four OCS providers in the Southwest raised prices over the past 12 months, similar to the Northeast. It was reported that 73 percent of operators increased the amount they charged for their products and services. The price per traditional cup of coffee was shown to be the highest, with an average charge of 14.2 cents per cup. For single-cup, the price was 27 cents per cup.

Again, janitorial and office supplies were cited as the fastest growing segments in the Southwest. Pantry service was the next fastest segment with tea and single-cup coffee tied for a distant third.

With the exception of the Midwest, OCS providers favored raising prices due to higher costs. However, that didn't always mean higher prices per cup of coffee, as competition forced providers to maintain certain "acceptable" per cup prices for their specific area and the types of coffee offered to customers, both frac pack and single-cup changed. However, it hasn't stopped OCS providers from growing. From the data, it's clear that one strategy they are using is non-coffee services. Janitorial and office supplies as well as pantry service are both logical extensions of service for a workplace. As OCS providers search for ways to increase the money locations spend, as well as make themselves indispensable to locations through all the services they can provide, it is expected that what OCS providers offer will continue to diversify. | ◀

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\*IRI Total US MultiOutlet Current 52 Weeks ending Sept 6, 2015, IRI NCP; Buyer Overlap between Folgers  
MS Black Silk, Maxwell House Mainstream Dark Roast & Starbucks Premium Dark Roast 52 WE 9/6/2015

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# Blow the Dust Off Your LinkedIn Profile and Become a Leader

By John Healy, Contributing Editor

**J**ust Google the words “Optimizing your LinkedIn profile,” and you’ll find dozens of articles about how to create the perfect profile, whether you’re looking for a job or striving to become a thought leader among your customers, prospects and the industry overall.

While the sidebar article reviews the basics of an optimized profile, just creating one and parking it on LinkedIn won’t produce the results that are possible if you regularly update your profile and use its elements to expand your reach and perception as a leader.

## Good habits bring success

The novelist John Irving once said, “Good habits are worth being fanatical about.” He couldn’t be more right when it comes to LinkedIn.

If you want to expand your reach and your spheres of influence, then you have to grow your 1<sup>st</sup> degree connections. And one of the best ways to do that is by joining LinkedIn groups. Now reporting more than 2 million groups, LinkedIn offers plenty of opportunities for you to expand your reach. Begin by using LinkedIn’s search bar and enter key words, based on your geographic location, industry, prospects, community/charity organizations, hobbies and interests.

*Hobbies?* I worked with a client who asked me to research and request membership into half a dozen groups of Porsche enthusiasts.

That’s right, Porsche as in the car! He said to me, “You’d be surprised how many great professional connections I’ve made with other guys who love to race Porsches.”

LinkedIn used to allow members to belong to 50 groups and 50 subgroups, but the concept of subgroups failed, so a member can now belong to 100 groups. To begin, shoot for 20 to 30 really solid groups that meet your criteria and have at least 1,000 members each, if not more!

Once you belong to the groups that fit your criteria, begin posting “curated” (found) content and sharing it with the members of your groups. Doing so couldn’t be simpler, because most trade journals, news articles, videos, Infographics, etc., offer share icons. Simply click on the LinkedIn share icon attached to the content and a box will pop up, allowing you to comment on the piece of content and type in the names of all the groups with which you want to share that content.

Posting curated content at least once a week, if not more, will raise your leadership equity in the minds of group members.

Another critical habit — once you’ve joined plenty of groups — is to conduct “Advanced” searches within those groups for 2<sup>nd</sup> degree connections, asking them to become 1<sup>st</sup> degree connections, again expanding your spheres of influence. If you click on the word Advanced next to



**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. His affiliation with the industry dates back to 2009. Reach him at [jhealy@healyco.com](mailto:jhealy@healyco.com) or through the LinkedIn group: Vending, OCS & Micro Market Sales & Marketing Executives Network.

the search bar at the top of the LinkedIn screen, a box pops up and you’re on your way. For those who want to narrow their searches, you can use the Boolean method; read more about it here: <http://talent.linkedin.com/assets/Product-Pages/Training/TipSheet-BooleanSearching.pdf>

I try to spend at least 10-15 minutes a day connecting with others in the groups to which I belong, and it has paid off. But, again, you have to make it a habit, and make it part of your business development routine.

## Start your own group

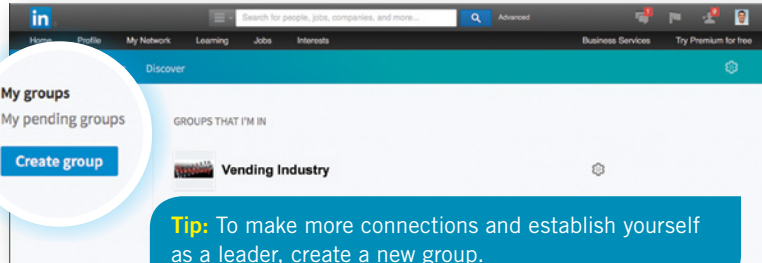
Starting a LinkedIn group is a great way to connect with people in our industry — more importantly, in your target markets — and raise your profile as a thought leader and expert. Choose a group name that will resonate with your customers and prospects, such as a topic of interest or a profession (rather than your brand name), as more people will perceive your group as a source of learning rather than promotion.

It is important to spend some time building your group membership. Invite your connections to join the group, and promote the group (and its content) on your website, email signature, newsletter and social media accounts such as Facebook and Twitter.

Until members begin initiating “Conversations,” as LinkedIn calls them, you should post at least three

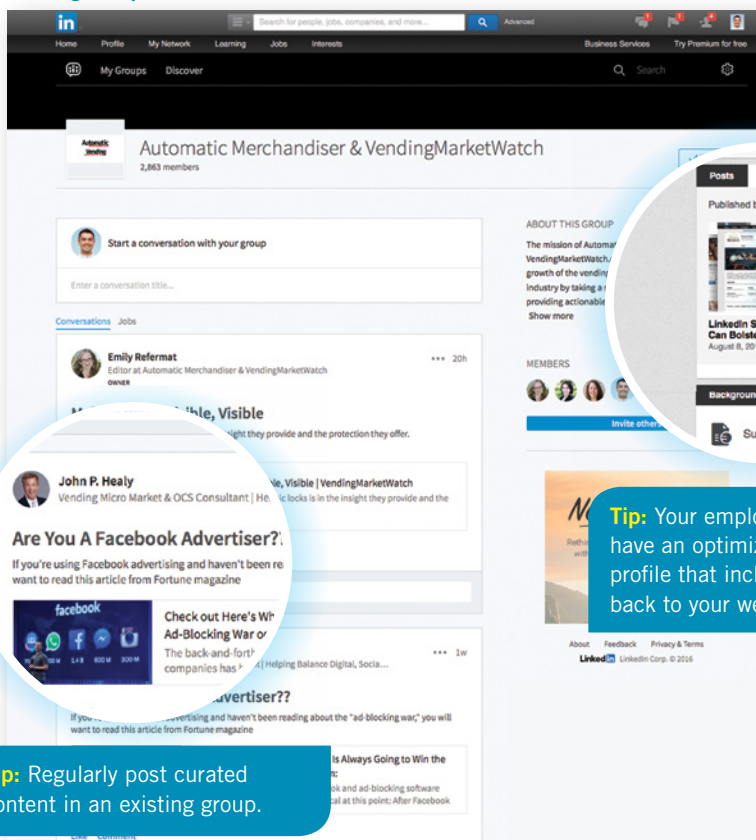
**Tip:** To begin, join 20 to 30 groups that have at least 1,000 members each.

### New Group



**Tip:** To make more connections and establish yourself as a leader, create a new group.

### Existing Group



**Tip:** Regularly post curated content in an existing group.

times a week. A good strategy is to post conversations that ask questions and include a link to a related article. Once your group members start posting content, be sure to “Like” and “Comment” on their content.

### Regularly update your LinkedIn status

Updating your status is a priority when building your followers on LinkedIn. Posting regular, valuable and interesting curated content

using LinkedIn Pulse is the best way for your connections to perceive you as an expert in your field. Ideally you should post at least once a week to start building your thought leadership.

The process of selecting content needs to be done in a thoughtful and strategic way. Your content must offer more than veiled self-promotion. The idea is to educate others because that’s what leaders

do: they share their knowledge and educate. Creating original content such as long-form posts, Infographics, videos, Slideshares and more is a great way to demonstrate thought leadership. Visuals work really well in LinkedIn and can greatly increase the level of exposure and engagement you have with your targets.

### Employees, ‘link backs’, vanity URLs

Your company’s employees are a great (and likely underutilized) resource. First, everyone in the company should have an optimized LinkedIn profile (again, see the sidebar). Not having a LinkedIn profile in the 21<sup>st</sup> century is like not having a business card or a resume.

Their profile — like yours — should include a “link back” to your website. Doing this helps to improve search engine optimization. The more times a search engine sees your website’s URL, the higher you appear in the rankings when prospective customers go looking for your products/services.

A vanity URL for your LinkedIn profile is akin to a vanity license plate for your car. So why do it?

Social media sites like Facebook, Twitter and LinkedIn rank at the top of search engine results because of their credibility. Since search engines like Google comb through URLs for keywords, having your business’s name, or your own, will provide a boost to its visibility online. Also, you can promote your vanity URLs across all your marketing. Include the links in email footers or signatures, newsletters, your website and online ads.

To customize your public profile URL, go to your LinkedIn Profile page and select “Edit Profile.” Click on the blue box under your profile photo that says



## The Basics of an Optimized LinkedIn Profile

Following are the absolute “musts” of a strong and credible LinkedIn profile. Anyone you’re doing business with or want to do business with *will* check your profile, so be sure it includes:

- **A professional looking headshot** (called a profile photo) as well as an interesting cover photo that is placed above your professional headline box.
- **A professional headline** that is more than just your title and company name; think about what benefits you offer customers and convey that in your headline. And don’t forget to include your industry (from a drop-down list provided) so people can find you more easily during searches.
- **A summary section** that is a well-written description of your expertise, offerings and customer benefits, as well as your contact information: email address and phone number (in the body of the summary, as well as in the contact information). And don’t forget to include key words and phrases that will help you be found more easily during searches.
- **An experience section** that includes robust descriptions of each position, focusing on client benefits, plus work samples and/or recommendations from customers, colleagues, bosses, etc. (There’s space for two work samples, videos, etc. per job.)
- **A skills section** that includes the

skills in the order you think is most important and including enough endorsements from others so you look like a leader in your field!

- **Long-form posts:** because they appear above your summary, it’s a good idea to post at least three. Plus, publishing such posts really enhances your thought leadership.
- **Join relevant Groups** – just a few which include your peers, but more importantly, join those where your customers and prospects can be found.
- **Publications** (in which *you* have been published) and education are less important than the other sections of your profile, but those who publish their educational credentials receive 10x more profile views than those who don’t.
- There are about a dozen more sections you can include, such as volunteer experience, honors & awards and “projects,” among others – choose the ones that make your profile shine!

“View profile as” and scroll down to “Manage public profile settings.” In the upper right hand corner of your public profile, you’ll see a blue pencil next to your existing profile’s URL. Click on the pencil and change the URL! (Don’t forget to click Save when you’re done.)

LinkedIn also only has two restrictions regarding how you can customize your vanity URL:

It must contain between 5-30 letters or numbers, and it cannot include spaces, symbols or special characters.

So get busy leveraging your LinkedIn presence to become a genuine thought leader. By investing just a few hours a week on these ideas, you can jump to the head of the pack. | ◀

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# Change Your Snacks For Better Profits

By Adrienne Zimmer, Managing Editor

**Optimize snack offerings with bolder flavors, simple quality ingredients and portability.**

**T**hese days, the food discussion seems to be centered around snacking. It's not hard to see why. Nearly 94 percent of Americans snack at least once per day, while 50 percent snack two to three times per day, according to reports from Mintel. More frequent snacking is replacing standard meals for many and the definition of what makes a snack is changing, too.

Consumers are largely defining what they want in a snack and in all channels — vending and micro markets included — manufacturers are creating foods that fit those changing preferences.

"In the old days manufacturers would take a more random approach with new item introductions to see what would stick with consumers," said Mark Dieffenbach, director, specialty channels, The Hershey Company. "Today, however, we [manufacturers] have consumer panels and have all put more research into what consumers are looking for in a snack."

A sophisticated palate is drawing requests for both bold flavor combinations and a better-for-you angle in snacks. At the same time, consumers are opting for treats that are transparent — both in ingredients and packaging — as well as portable to fit with their on-the-go lifestyles.



### Have fun with flavor

Twenty years ago, there were not as many flavor combinations in foods as there are today. Flavor profile is a large part of what consumers look for in snacks, and is one way operators can drive sales at the machine and micro market, says Kelly Fulford,

General Mills Convenience, senior category development manager. “Bold flavors (e.g., sriracha, wasabi, chili lemon, seven layer dip) bring high taste and something new to traditional snacks,” she said. “New flavor combos and textures are ways to drive trial and keep consumers interested in what’s next. The trend of fusing sweet and savory together (e.g., pecan pie chips, chocolate and chili chips) to satisfy the desire for indulgence with a touch of saltiness is also growing.”

Why the reason for the increase in flavor-infused offerings? Simply put: data. “As manufacturers, we gather consumer feedback and take a strategic approach to matching consumer need states with what our other research and data is telling us,” said Dieffenbach. “When we identify a flavor or item to be trending we begin developing a product to fit that need.”

And what many have found is that food combinations and flavor pairings are the drivers in product development today. “Just as consumers seek more function in their snacks they have expanded their taste to support exotic flavor profiles,” said Earl Williams, Dole national sales manager-convenience business channels.

General Mills’ Fulford notes that from a bar category standpoint, although the category historically featured sweet flavor profiles like chocolate and fruit flavors, they’re now seeing bar innovations that feature savory and spicy flavors, oftentimes in tandem with sweet flavors.

But it’s not just the front label flavors consumers are looking at when choosing a snack. They are also paying closer attention to what’s going into their food and the way it’s presented in the package.

### What’s inside matters

The better-for-you snack category has been steadily gaining traction for the last few years, but most manufacturers say that it’s still growing. And snacks now must do more than satiate — they must provide nutritional solutions, said Williams. “Natural snacks with healthy ingredients and clean nutritional panels are driving sales growth in the snack category,” he continued.

Eric Russell, Clif Bar & Company, director of sales, agrees. “Consumers want healthy, organic, sustainable food that is delicious, and immediately available to them — wherever they are and wherever they go.” Characteristics such as a limited number of ingredients, all natural, not fried, and real ingredients are popping up across all snack categories.

Micro markets give operators the opportunity to provide a wider variety of better-for-you options, too, says John Koskovich, marketing manager, Kar’s Nuts, makers of Second Nature Snacks. The company started placing its branded racks in markets, he said. “This allows for a bigger nut snack selection, which in turn lets the operator offer more healthy items.”

“Micro markets should ensure their assortment includes a variety of inherently healthy snacks to fuel shoppers’ on-the-go lifestyles during the day,” added Fulford. From a merchandising standpoint, she said, operators should try to group their better-for-you items together and leverage signage to make these items more visible on the shelf.

But it’s not all about micro markets. Manufacturers haven’t forgotten about vending. In fact, Dawn

## Is the vending & retail consumer the same?

When a consumer enters a breakroom to purchase a snack, do they shop the same way they would at a grocery store? Mark Dieffenbach, director, specialty channels, The Hershey Company, points to brand A of soda. “If a consumer is loyal to brand A and enters a grocery store, they are going to purchase brand A,” he said. “When that same customer goes into a breakroom, they are going to look for their brand A soda. If it’s not there, research has shown that they will most likely bring it from home or get it somewhere else.” So yes, he says, the vending and retail consumer is the same shopper because they are brand loyal.

Kelly Fulford, General Mills Convenience, senior category development manager, has noticed a different trend. “The vending/micro market consumer is seeking immediate fulfillment (immediate consumption)/grab and go — versus the grocery trip which is to stock up,” she said. Micro market consumers, she says, are coming into the store to fulfill a need — which tends to be emotionally driven. “The micro market/vending trip also is more impulsive than the grocery trip — with over 60 percent of snack purchases driven by impulse versus grocery which is a planned trip.”

Cloutier, director of marketing innovation at PepsiCo Foodservice, notes that nearly 2/3 of consumers don’t use vending today because there aren’t healthier choices available. To



counter that, the company came up with a way to embrace the better-for-you change and appeal to that consumer preference. “PepsiCo’s Hello Goodness machine combines our food and beverage portfolio to offer consumers a variety of healthier choices throughout the day,” said Cloutier. The machines carry everything from Quaker Breakfast Flats and Tropicana Pure Premium Orange juice to Aquafina, Baked Ruffles, Naked Juice and Sabra Hummus and Pretzels.

In addition to better-for-you ingredients, there continues to be a lot of innovation around clear packaging so consumers can see what they are purchasing and what appeals to their senses, says Fulford. “Bright colors and differential packaging are also emerging trends to help products jump out to consumers from the shelf.”

#### **Bite-sized and portable is key**

There continues to be a focus on making the snacking experience as convenient and “on-the go” as possible. Packaging innovations that meet that need include resealable bags, smaller “slam packs” and chip bags with horizontal openings to make it easy to grab chips and munch, says Fulford.

Dieffenbach agrees with these trends and notes that consumers are eating smaller, portion-controlled quantities, which has also led to more snacks becoming available in a ‘bite-sized’ option. He warns, however, that resealable packages might have unintended consequences for micro market operators. “If a consumer can close and save a snack for later, that diminishes the chance of them going back to the breakroom to make another purchase,” he said.

**“Bright colors and differential packaging are also emerging trends to help products jump out to consumers from the shelf.”**

Kelly Fulford, General Mills Convenience, senior category development manager

In an office setting, snacks are purchased with the intent that they will be eaten right away, so consumers are looking for items that are portable and single serve, says Patricia Dallas, brand manager — foodservice snacks, The Kraft Heinz Company. “Typically a vending/micro market consumer is seeking a snack to hold them over till their next meal,” she said.

The key is offering options that are full of flavor, transparent and movable with the consumer.

#### **It’s about consumer experience**

Vending and micro market operators can and should look at what items are selling at their locations. “Data insight is huge and can tell operators information specific to their customers, such a flavor and size preferences,” said Dieffenbach. “We are in the business of creating a consumer experience and that includes offering the items the customer wants to eat and drink,” he said. “You get this from your data.”

Operators can use data to not only tell them what new products are selling, but what core products are moving, too. Fulford notes that although innovation is important, operators don’t want to lose sight of the core SKUs that are continuing to drive sales and profits. “Leverage data

to drive assortment decisions,” she said. “There are now so many data sources available from syndicated data to delivery data there is no reason not to make educated decisions about assortment. Partner with key manufacturers or your distributor to leverage key metrics and benchmark your performance to your competitive market.” She suggests that operators focus on categories that are driving sales and profits. “Evaluate and understand category, segment, brand and SKU level trends,” she continued. “Ensure you have your core SKUs represented and balance your assortment with new or regional items. It is also important to ensure you are allocating space correctly by performing a space to sales analysis against the segments represented across your key categories.”

Creating a consumer experience means more than offering new products, too. It includes a bigger picture. “In our industry operators should focus on breakroom design and features that draw consumers in,” continued Dieffenbach. This includes equipment with the latest technology such as bundled options, payment choices that fit what’s in the consumer’s pocket, a comfortable space where employees can interact and more.

The snacking experience has evolved in the 21<sup>st</sup> century and those operators who hope to grab the consumer’s attention and dollar need to focus on providing the items that fit their changing preferences. | ◀

**“We are in the business of creating a consumer experience...”**

Mark Dieffenbach, director, specialty channels, The Hershey Company



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# OCS Growth Continues, Tempered By Regional Economics

By Emily Reformat, Editor

**Revenues reach a new record, but operators in some areas of the South and West are reporting revenue declines.**



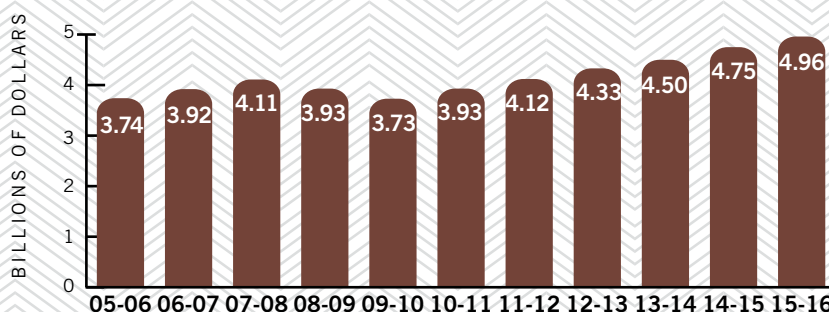
Coffee is still big business. And if you bring it to someone's workplace, it has gotten even bigger with a 4.5 percentage increase from 2015 to 2016. The industry has grown to a new high of \$4.96 billion dollars due to customer demand for premium and gourmet coffees such as fair trade and organic, but also the creation of a coffee house experience with bean-to-cup machines and specialty drinks. In addition to coffee, operators are offering more services than ever before to remain competitive and ensure they are the best one-stop-shop for their customers.

## Areas of decline

Despite the record-breaking revenue growth reported over the past 12 months for the majority of operators, there are some struggling with dropping profits. In the second half of 2015 and the first half of 2016, 17.2 percent of operators who offer OCS reported that their sales declined (chart 2). While

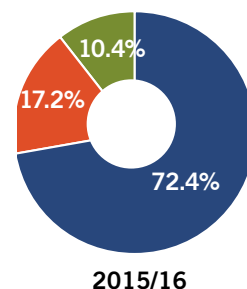
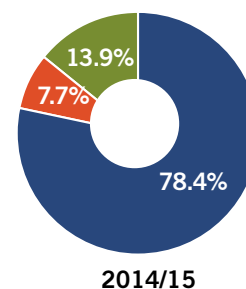
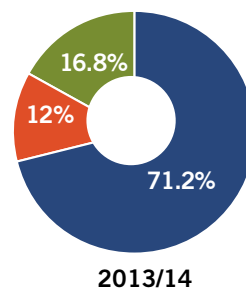
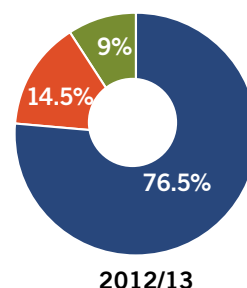
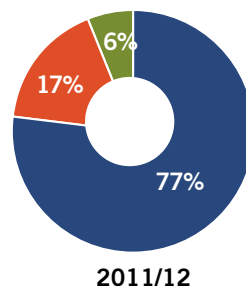
a relatively small number, it jumped nearly 10 percent in one year from 7.7 percent, which could be a cause for concern. Nearly all of the operations affected were smaller businesses that service between 1 and 4 routes and a large portion, 40 percent, are located in the Southeast. Other geographic regions where respondents reported a decline were the

**CHART 1: OCS REVENUES – 10-YEAR HISTORY**



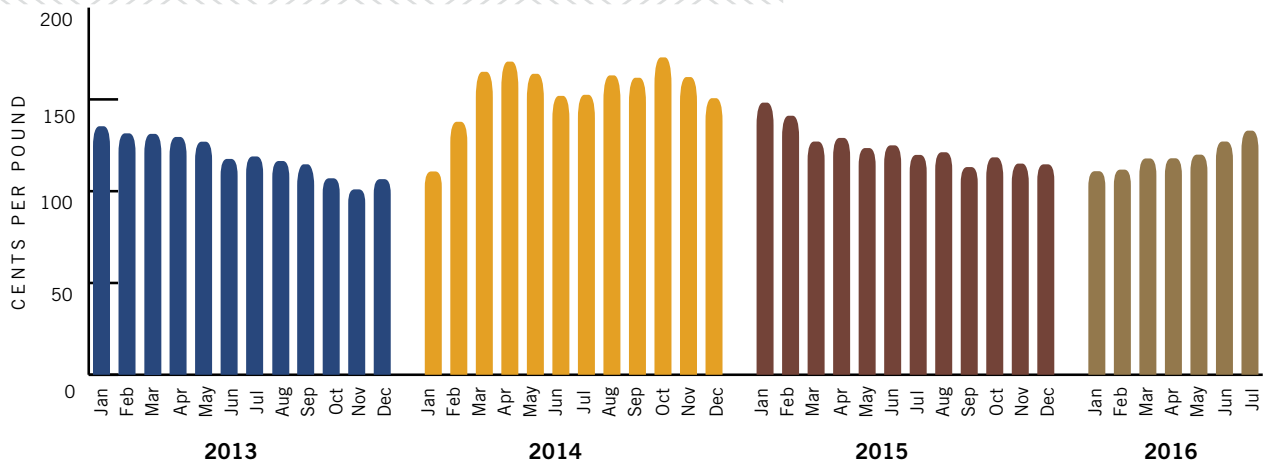
**CHART 2: OPERATOR SALES CHANGE, 4-YEAR REVIEW**

● SALES ROSE ● SALES DECLINED ● NO CHANGE



# STATE OF THE OFFICE COFFEE SERVICE INDUSTRY

**CHART 3A: COMPOSITE GREEN COFFEE PRICES, 2013 TO JULY 2016**



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

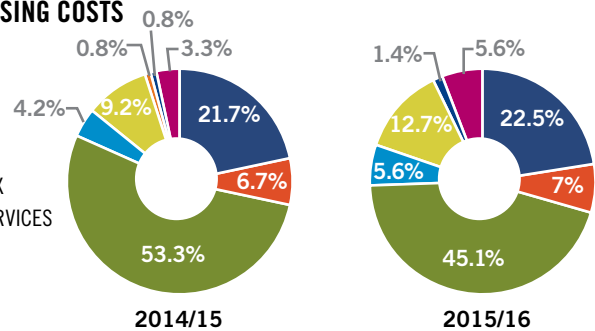
Midwest, Northwest and Southwest. Conversely, large OCS providers did not report the negative sales. In part, this might be because large operations can more easily invest in new products and services that proactively meet consumer needs.

## Green prices rise

While the price of green coffee has increased, it has not been credited with having a significant impact on revenues. The International Coffee Organization (ICO) reports a composite indicator of 132.98 cents per pound for July 2016, up 13.21 cents/pound from July 2015 (chart 3A). This is far from the highs seen in 2011, but the

**CHART 3B: HOW RISING COSTS ARE BEING HANDLED**

- RAISING PRICES
- ABSORBING
- COMBINATION
- ADJUSTING PRODUCT MIX
- SELLING ADDITIONAL SERVICES
- CHANGING WORKFORCE
- DIVESTING BUSINESS
- OTHER



\*Other includes changing product mix, divesting business, workforce changes, etc.

increase has caused OCS providers to raise prices, diversify their services and adjust their product mix.

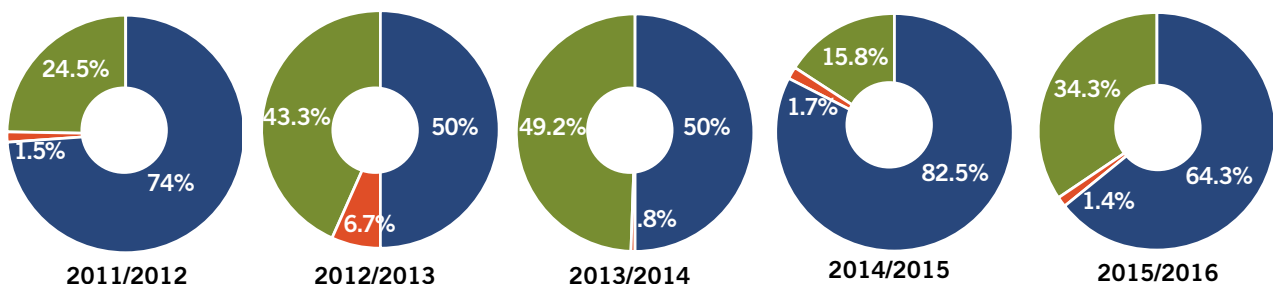
The most significant change in business strategy from last year is operators selling additional services to

handle raising costs (chart 3B) which has increased 3.5 percent. Of the additional services, the top three offered were micro markets, water service and pantry service. Adjusting product mix and divesting some or all of the

## OPERATOR PRICING ACTIVITY

**CHART 4A: OPERATOR PRICING ACTIVITY, 5-YEAR REVIEW**

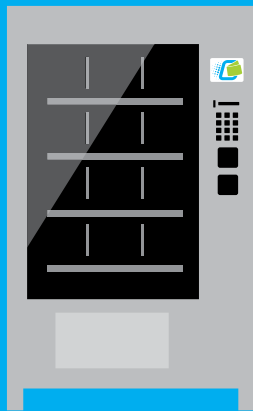
- RAISED PRICES
- LOWERED PRICES
- NO CHANGE





# ***Growing Your Business***

## **3 Strategies You Can Use**



**1**

**More Machines**



**2**

**More Users**



**3**

**More Usage**



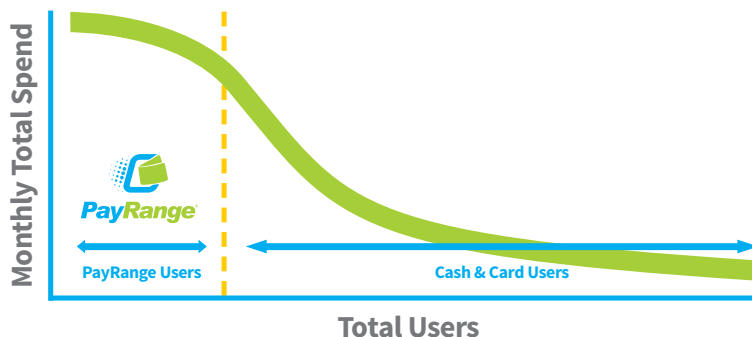
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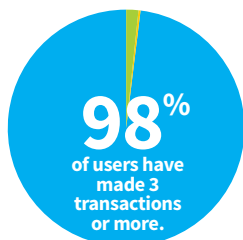
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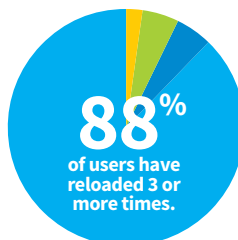


**User adoption is resoundingly clear.**



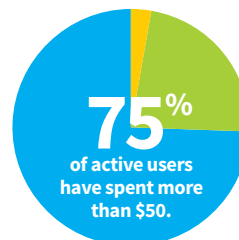
Transactions Per User

1 2 3+



Reloads Per User

0 1 2 3+



Spending Per User

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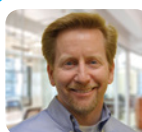
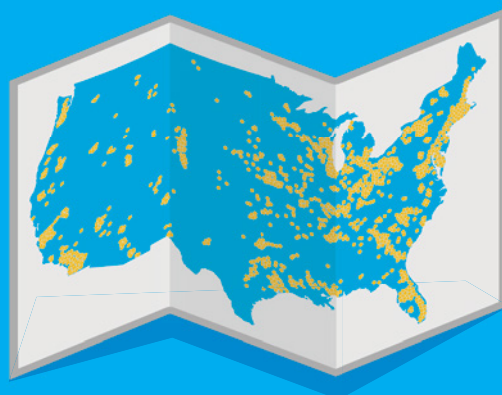
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**Mark Bentley**

Director of Sales

mark.bentley@payrange.com

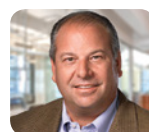


### East

**Brian Gill**

Director of Sales

brian.gill@payrange.com



### National Accounts

**Paul Salzinger**

Director of Sales

paul.salzinger@payrange.com



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# STATE OF THE OFFICE COFFEE SERVICE INDUSTRY

business also increased. OCS providers are working to diversify their business and adjust it to the needs of today's workplace.

One of the changes happening is employers eliminating benefits for employees, such as coffee and free food. While this is not a universal trend, indeed some employers are adding services such as free food, it is a challenge for affected operators. Provided the location has a large enough employee base, micro markets can be a solution to offer refreshment, while reducing cost. The variety of products, the ability to pick up and examine the food as well as the more positive perception of micro markets over vending, endears the service to employees and draws in additional customers that would not otherwise use a bank of vending machines.

Even OCS only operators, who do not do vending, have tried micro markets, although they have found the entry challenging. To keep spoilage low, more warehouse management has to be done and attention to reporting to maximize product sales. It has been a challenge for operators unaccustomed to delivering food products to locations.

Water service, especially point-of-use (POU) filtration systems, allows OCS providers to earn more dollars per stop with minimal investment. It has been reported as both a strategy to keep water companies from entering the location, and possibly taking over the OCS, as well as a way to help save a location money by changing to a POU system instead of 5 gallon bottles. OCS providers are advertising POU's sustainability as well and the healthy benefits of better-tasting water for employees to drink at work. Filtering also enhances the taste of coffee and tea, helping OCS providers sell it to locations.

The other top OCS segment addition, pantry service, is popular as either a way to save a location money

**CHART 4B: REVENUE PER CUP IN CENTS PER CUP, FRACTION PACK PLUMBED IN/POUROVER COFFEE, 5-YEAR REVIEW**

	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
Revenue	11.7¢	11.8¢	12¢	12.4¢	12¢

\*Previous numbers have been adjusted based on additional data

**CHART 4C: REVENUE PER CUP, SINGLE-CUP COFFEE, 5-YEAR REVIEW**

	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
Revenue	41.8¢	43.1¢	44.9¢	45.5¢	45.3¢

\*Previous numbers have been adjusted based on additional data

**CHART 5A: % OCS SALES BY PRODUCT CATEGORY, 5-YEAR REVIEW**

	11/12	12/13	13/14	14/15	15/16
Private label coffee	28.2%	18.2%	21.8%	12.7%	12.1%
Local coffee			12.5	8.5	8.6
National coffee brands	28.1	24.4	21.9	12.1	10.6
value frac packs			3.5	5.4	6.6
whole bean coffee				4.7	2.4
espresso/cappuccino	3.7	5.4	1.9	4.3	6.6
K-cups			7.9	7.4	5.4
other single-cup			6.0	5.2	3.7
other coffee*	9.9	17.4	4.8	6.0	9.3
Total Coffee	69.9	65.4	80.2	66.4	65.3
Other hot beverages	5.5	6.4	4	3.3	3.1
Soft drinks/juices	5.7	6.6	1.8	4.5	4.0
Bottled/filtered water	4.8	7.3	3.9	5.3	4.6
Creamers/sweeteners	6.6	6.5	5.2	4.5	2.7
Cups/paper products	6.2	6.5	4.5	3.8	2.8
Tea				3.6	3.5
Pantry					8.2
Water service	1.3	1.9	0.4	4.9	5.8
Other				3.6	0.0

\*Includes flavored and varietal.

or provide additional benefits. Pantry service as an alternative to a cafeteria is less expensive and wasteful, allowing the OCS provider to help employers save on workplace refreshment costs. Where businesses are trying to lure top employees and provide additional services, it allows snacks, food, and sometimes any product, to be delivered right to work — a convenience and sought after benefit. Pantry service also covers a wide range of services. It can be defined as dropping off snacks and soda for the breakroom to offering online ordering available to the entire company

**CHART 5B: TOP-SELLING OCS PRODUCT FOR PAST 12 MONTHS**

	2015/2016
Local coffee brands	5.7%
Private label	42.9
Value frac packs	8.6
Specialty drinks	0.0
Whole bean	0.0
National brand coffees	20.0
K-Cups	14.0
Single-cup	2.9
Tea	0.0
Pantry	2.9
Water service	0.0
Other	2.9

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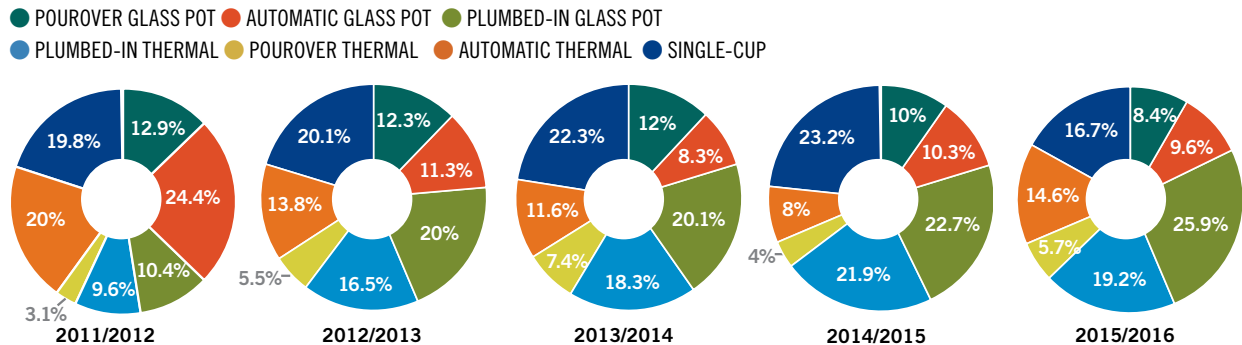
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# STATE OF THE OFFICE COFFEE SERVICE INDUSTRY

**CHART 6: PLUMBED-IN, AUTOMATIC AND THERMAL AS % OF TOTAL, 5-YEAR REVIEW**



**CHART 7: ESTIMATED MARKET SHARE OF SINGLE-CUP BREWER PLACEMENTS IN THE U.S., 5-YEAR REVIEW**

MARKETER	PRODUCT(S)	2011/12	2012/13	2013/14	2014/15	2015/16	% Change
Bodecker Brewed	Bodecker	0.3%	0.4%	0%	2.5%	0.4%	-0.9%
Cafection	Avalon	3.9	2	3.3	6.4	9.7	0.5
Cafejo	Cafejo	2.4	2.4	0.0	0.1	0	-1.0
Technologies Coffea	Coffea				0.3	0	-1.0
Crane	Café System, Genesis	1	1.3	0.3	5.2	11.2	1.2
Filterfresh	Filterfresh	1.4	4.7	2.9	1.2	0	-1.0
Grindmaster	Grindmaster	1.4	6.0	0.1	1	0	-1.0
JM Smucker's	Douwe Egberts				2.9	7.5	1.6
Keurig	Keurig	46.2	46.2	39.6	30.0	21.3	-0.3
Kraft	Gevalia, Tassimo Professional	0.8	2.9	3.9	9.8	9.6	0
Lavazza	Espresso Point, Lavazza Blue	1.7	2.1	0.4	5.3	4.8	-0.1
Mars Drinks	Mars Drinks (Flavia)	30.1	23.4	37.5	16.8	9.3	-0.4
Newco	Smartcup, Freshcup, CX-3	0.4	2.2	1.7	4.3	4.9	0.1
Rheavendors	Rhea, Cino	0.3	0.1	0	0	0.2	0
Saeco USA	Saeco, Estro	2.0	0.6	0.0	0.5	0.1	-0.8
Starbucks	Starbucks	0.8	1.6	2.6	2.7	2.4	-0.1
Technologies Coffea	Coffea	0.2	0.0	0.0	0.3	0	-1.0
VE Global Solutions	Brio, Colibri, Cypris, Juno, Koro, Korinto, Kinvivo, Prosy, Venus	1.6	0.1	1.9	4.9	1.8	-0.6
VKI Technologies	Eccellenza Express, Eccellenza Touch, Eccellenza Cafe				1.2	0.1	-0.9
Wolfgang Puck	Wolfgang Puck	0.3	0.3	0.1	0.3	0.2	-0.4
Other		0.2	0.8	0.8	1.1	16.3	13.8

\*Represents OCS provider placements only

that is delivered the next day with the OCS driver. It's a wide variety, but is essentially anything the customer wants, and the operator can deliver.

## Non-coffee fuels growth

Competitive forces are causing OCS providers to alter their product offerings to be more inclusive

of what the market is demanding. That includes non coffee items as much as it does specialty coffee. According to operators, an average of 34.7 percent of their annual revenue is made up of products and services other than coffee (chart 5). Pantry service and water service saw a substantial increase in share

of revenue, currently 8.2 percent and 5.8 percent respectively.

While soda and bottled water appear to be dropping in share of revenue, these product segments are being lumped into pantry service when it's offered by operators. When you add soda, water and pantry service, you get over 16 percent of the



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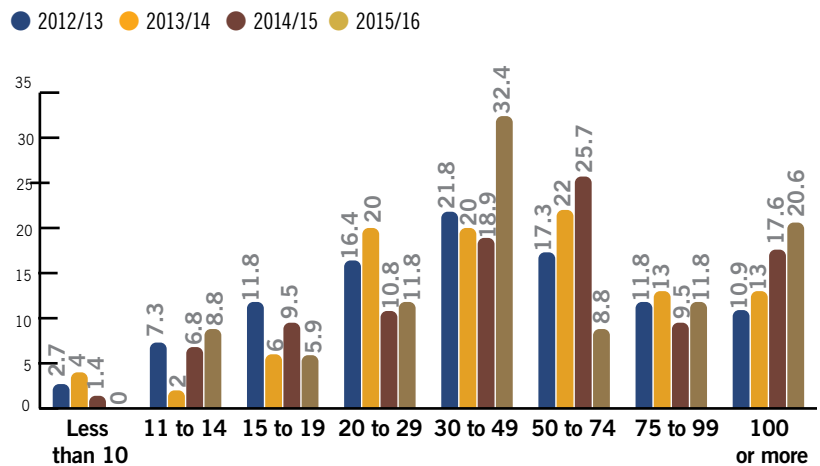
# STATE OF THE OFFICE COFFEE SERVICE INDUSTRY

revenue. This may not be what every operator offers, but it's a significant sign that maintaining a strong OCS business means diversifying into non coffee beverages, too.

Coffee can't be underestimated in OCS revenues, however. It still represents 65.3 percent of revenues. Operators who offer espressos, cappuccino and specialty coffees (mentioned in 'other') have increased. These are popular options for the business that is spending money on employee morale, retention and productivity. Specialty coffee is especially popular among companies appealing to Millennials.

Value coffee also spiked in this year's report due to those regions dealing with economic hardships. When asked what impacted their business "a lot" in the past 12 months, 35.7 percent of operators reported it was an area business closing (chart not shown). When combining those that said "a lot" and those that said "a little" it was 92.8 percent of operator respondents who had issues with accounts shutting down. Most operators were able to gain other accounts, but not all.

**CHART 8: ACCOUNT POPULATIONS BY SIZE**



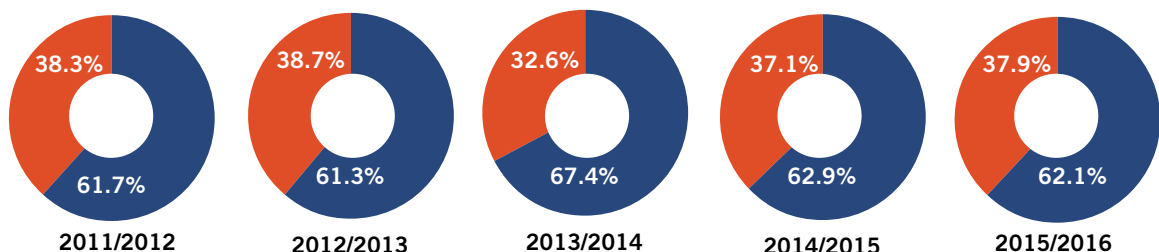
**CHART 9: ACCOUNTS BY TYPE, 5-YEAR REVIEW**

	2011/12	2012/13	2013/14	2014/15	2015/16
Offices	55.8%	48.8%	45.0%	47.4%	46.6%
Industrial plants	18.7	15.1	17.3	17.1	12.9
Restaurants, delis, bakeries	4.5	6.3	7.3	8.5	7.1
Convenience stores	5.2	7.2	8.3	4.7	8.8
Government/military	3.3	5.4	3.5	3.3	1.7
Schools/colleges	3.8	5.2	5.4	6.7	7.7
Retail outlets	1.9	2.11	2.7	5.8	6.2
Other (health care/hotels)	6.9	10.1	10.5	6.5	8.9

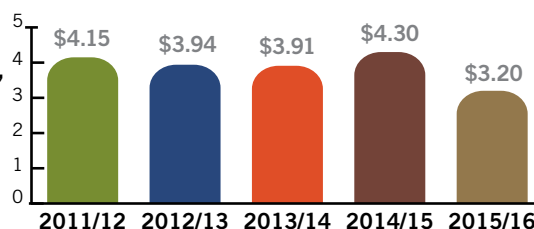
## FUEL CHARGE ACTIVITY

**CHART 10A: COMPANY BILLED CUSTOMERS FOR FUEL, 5-YEAR REVIEW**

● YES ● NO



**CHART 10B: AVERAGE AMOUNT CHARGED FOR FUEL PER DELIVERY, 5-YEAR REVIEW**



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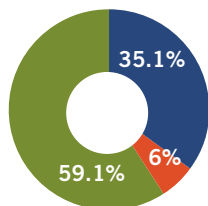
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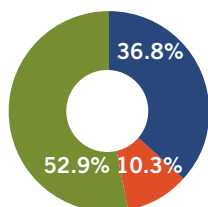
# STATE OF THE OFFICE COFFEE SERVICE INDUSTRY

**CHART 11A: HAVE ADDED OR REDUCED STAFF IN THE LAST 12 MONTHS**

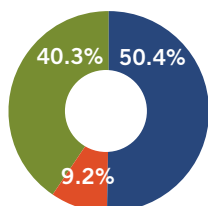
● ADDED ● REDUCED ● NO CHANGE



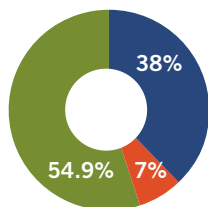
2012/2013



2013/2014



2014/2015

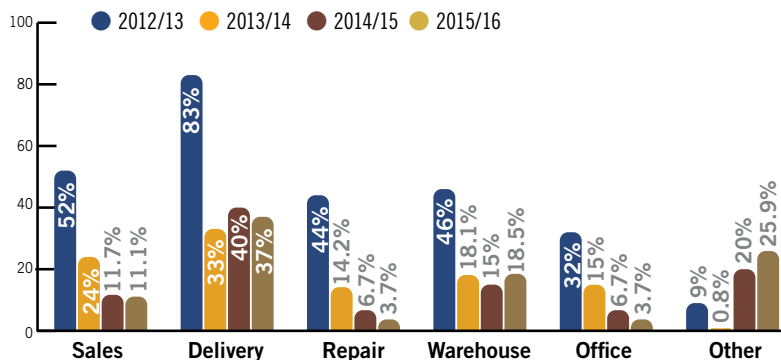


2015/2016

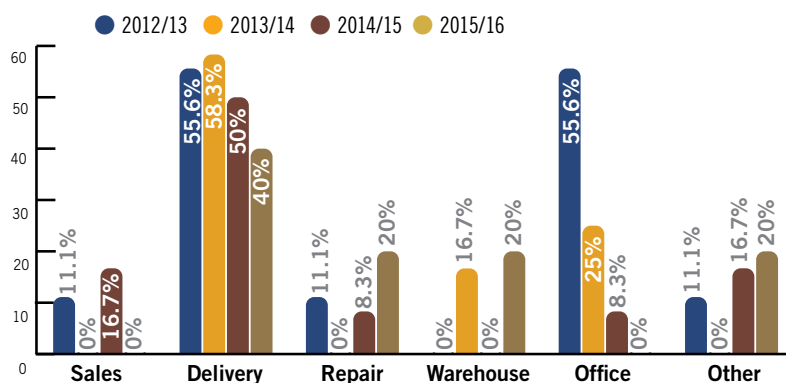
The continuing low price of oil and gas have added to the strain in regions that rely on this industry. In these struggling areas, value becomes a prime selling tool as well as offering other services that can save money, such as POU water systems.

Unlike vending and micro market focused business, those operations that center on OCS feel that they have an appropriate number of drivers and driver applicants available to them. In the State of the Vending Industry Report, find-

**CHART 11B: IF ADDED STAFF, IN WHICH AREAS?**



**CHART 11C: IF REDUCED STAFF, WHICH AREAS?**



ing and retaining top quality drivers was identified as a challenge, but this obstacle was ranked very low by OCS providers. Implementing and using technology was also ranked low in terms of challenges for OCS providers.

## Single-cup hits a slump

Last year single-cup was driving growth. This year, it has stalled, losing both percentage of revenue and single-cup brewer placements. According to operators, this is due to a combination of factors. First, in regions struggling to keep business, the pricing of single-cup and the number of competitors that sell on price drive down the profitability of single-cup accounts. The price charged for single-cup has actually decreased a few tenths of a cent to 45.3 from 45.5 cents per cup,

despite few operators reporting they lowered prices in 2015/2016 (chart 4). Instead coffee brewed in automatic thermal brewers is doing well. Automatic thermal brewers almost doubled in placements in 2015/2016 (chart 6). Plumbed in brewers still represent the bulk of placements.

One bright note for single-cup is the popularity of multiple types of brewers. Many operators noted that pod brewers are becoming more accepted by end users, and represent a better profit margin for operators than many cartridge or flat pack style brewers. Also single-cup brewers, especially bean-to-cup systems, are associated with gourmet and premium hot beverages, which deliver a more coffee-house experience. These types of brewers also allow for sales of solubles; choco-

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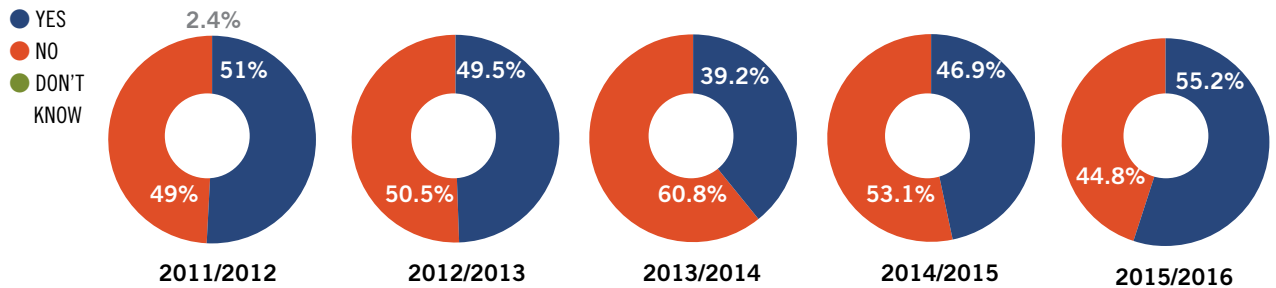
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# STATE OF THE OFFICE COFFEE SERVICE INDUSTRY

**CHART 12A: HAVE ADDED PRODUCTS THAT ADDRESS ENVIRONMENTAL CONCERNS, 5-YEAR REVIEW**



lates and milk powders to help build the ticket, or increase revenue. This type of brewer is still sought after by many locations, and will likely increase in areas where the economy is booming. Bean-to-cup was reported by 43 percent of OCS providers as the most significant single-cup brewer to affect revenues. It allows for a premium bean and freshly made quality coffee which consumers demand.

## Diversifying locations

Offices still represent the majority of locations OCS providers service (chart 9), with the bulk having between 30 and 49 employees (chart 8). That location size grew significantly from last year, as the 50 to 74 employee locations shrunk. This illustrates the challenging economics and location closings in certain areas. The largest locations

also showed fluctuation, but not as dramatically.

The number of industrial plants and military bases where OCS is provided dropped in the end of 2015 and beginning of 2016, according to operator reports. Instead, OCS providers are picking up locations in the convenience store segment, as well as some in retail, schools and hospitals. OCS providers are getting

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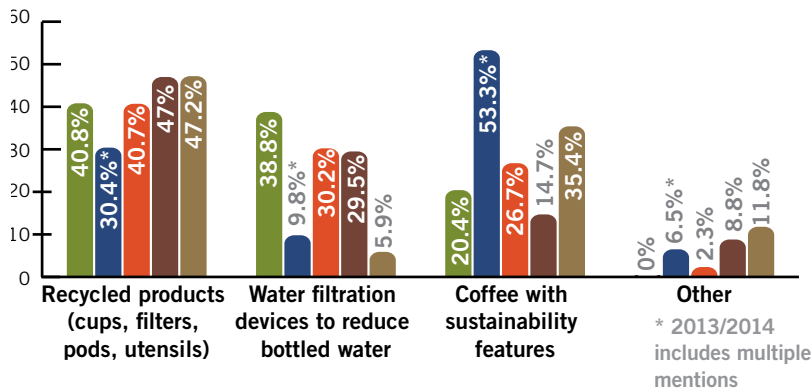
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# STATE OF THE OFFICE COFFEE SERVICE INDUSTRY

**CHART 12B: PRODUCTS ADDED THAT ADDRESS ENVIRONMENTAL CONCERNS, 5-YEAR REVIEW**

● 2011/2012 ● 2012/2013 ● 2013/2014\* ● 2014/2015 ● 2015/2016



better at expanding their search for profitable OCS locations outside the traditional workplaces. However, from comments, the changes in service and different product mix often come from customer requests or in reaction to competition. Few OCS

providers were proactive in offering additional services and products in 2015 and 2016, especially among smaller operations. At the other end of the spectrum, OCS leaders have been able to get out in front of the curve and offer what their custom-

ers want before being asked. This has allowed them to maintain a top service position, earn the best prices and drive record revenues.

The industry's growth is cause for celebration. Coffee will continue to be a desired benefit for the foreseeable future. Challenges from business closures and companies eliminating free coffee are troubling, but hopefully won't continue into 2017. | ◀

## Methodology

The *Automatic Merchandiser State of the Office Coffee Service Industry Report* is compiled from a survey sent to OCS operators, as well as operator interviews. The 2016 report is based on a 5 percent response rate to the survey and includes full-service vending operators who offer OCS as well as operators who only provide coffee service.

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Tom Steuber, far right, is pictured with his management team comprised of Geoffrey Saunders, Kimberly Lenz, Lani Jenkins and Sherrie Flower.

# OCS Operator Wins In California's *Coffee Evolution*

*By Adrienne Zimmer, Managing Editor*

**Associated Services grows 10 percent each year through its ability to adapt in an ever-changing market.**



Located near Silicon Valley, Associated Services has had to be as innovative as the companies it serves. The family-owned OCS operation, headquartered in San Leandro, CA, was an early adopter to single serve coffee long before it caught on in the rest of the U.S.; it began partnerships with local gourmet coffee shops which have now grown to be national brands; and it started offering an extensive pantry service with more than 1,700 SKUs when companies like Google began upping the ante of workplace refreshment services.

Associated Services is always looking for ways to improve and diversify its business and that recently included making investments such as hiring an advertising agency to change its brand image, creating an online ordering feature and placing its name and logo on its vehicles.

The company evolves with the times and does so while providing the same great service that helped it grow to become a recognized leader in the industry.

“Our region is the center for innovation and technology,” said Tom Steuber, president of Associated Services. “Therefore, we strive to provide an innovative and technologically advanced workplace coffee, beverage and pantry service experience for our customers. They expect the best in service and offerings — we deliver on that promise.”

### From vending to OCS

Associated Services was formed in 1972 by Tom Steuber’s parents, Hal and Diane. Hal gained knowledge of the industry from his background working in vending at Servomation, where his own father was a founder. After seven years at Servomation, however, Hal set out to start Associated. By then he knew what it would take to succeed. “My father started with one customer and went

door-to-door on sales calls,” said Steuber. “He did all the work and deliveries himself.”

In the 1970s there were a lot of OCS operations in the California area, Steuber recalled. Associated Services grew through acquisitions during that time, purchasing other OCS companies in order to expand locations and territory.

Steuber grew up in the business, working with his parents at Associated Services when he was in high school. But he wasn’t convinced it could be a lifelong career. “I wanted to be something else,” he laughed. Steuber set off for college and worked outside of the industry for a year after he graduated. In 1986, Steuber’s parents approached him to come and work

for the business. “I thought I needed to give it a try before I said ‘no,’” he recalled. Love for the customers and the industry persuaded Steuber to stay onboard, working in various positions within the company.

“The day my dad told me he was going to retire and turn the business over to me was a complete surprise,” recalled Steuber. He had grown to enjoy working in the family business and had learned valuable lessons on managing employees. “The best advice I was given by my dad I actually learned when he was saying it to someone else. He said, ‘Be open to new ideas and new things that can add to or transform your business,’” said Steuber. “And that stuck with me.” Steuber became



Employees at Associated Services average 10 years with the company. Pictured left to right are team members Vlad Petrovich, Brian Cook, Marvin Gutierrez and Victor Padilla.

**“Be open to new ideas and new things that can add to or transform your business.”**

Advice from Hal Steuber, founder of Associated Services

president of Associated Services in 2005.

The company that began with one man and one customer has today grown to 130 employees and five office locations throughout Northern California.

### The gourmet experience

The San Francisco Bay Area has a rich history in gourmet coffee, which means Associated Services' customers know a good cup of coffee when they taste one. In order to compete in such a market, the company has had to be innovative in a lot of ways. This means offering high-tech brewers that are easy to use and deliver a customized hot beverage.



Shop Technician Tom Rafalovich keeps machines up and running.

"People like freshness and espresso-based drinks," said Steuber. Bean-to-cup machines are popular with his customers who want a gourmet

experience. To serve this customer, Associated Services uses De Jong Duke's Virtu machine, which features a touchscreen with branding and advertising possibilities, flexible drink menus and customizable recipes. The company buys the machines and charges a monthly fee to the location. "The machines are technologically advanced and our customers like that. It's good, on-demand coffee and espresso," said Steuber.

As popular as they are, bean-to-cup machine placements are the minority of customers for Associated Services. Prepackaged single-cup is still the company's most prevalent offering and continues to take business away from air pots. Many of the company's smaller locations prefer Flavia or Keurig.

What consumers really want when it comes down to it though is a similar coffee experience both in and out of the office, says Steuber.

## Urban challenges

Operating in a city like San Francisco, CA, has its perks, but it also has its downsides. "In the downtown areas, many of these customers order a large variety of products and we can't load the truck with everything they may want," said Tom Steuber, president. "So, either these customers place their orders in advance (via phone or online) or we send someone by in advance to take their order." After taking the order the driver would then return to the warehouse, fill the order and return to the location to restock. "Generally speaking, we only send a driver to take a customer's order in advance for our largest customers that need that additional level of service."

"We have an in depth discussion with the locations to know exactly what items they want to stock and how many products they want at each break station in their office," Steuber continued. "This method may not be the most effective, but it's what we have to do to get around the challenges of city service."

The company has three different types of vehicles; small vans for service, trucks for bottled water routes and Isuzu trucks for coffee delivery.

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That's a need Associated Services fulfills with its partnerships with local and national brands.

The company was the exclusive Northern California OCS supplier for Starbucks for many years and it introduced Flavia and Tully's OCS to the Greater Bay Area. "We also partnered with Peet's Coffee & Tea early on and now they are a national brand," said Steuber.

In 2014 Associated Services began partnering with San Francisco-based Philz Coffee, a brand in the third wave coffee movement. "People love it," he continued. "They like to drink at work what they drink outside of work."

Most recently Associated Services began offering fresh cold brew in partnership with a local company called Black Medicine, which makes kegs and bottles.



Tom Rafalovich, Sean Brazil-Gates, Benny Chico and Ernesto Avalos are experts in their field.

It has been these partnerships with innovative brands, expert coffee knowledge by its employees and a service-focused mentality, among other things, that has helped Associ-

ated Services increase its reach to 36 OCS routes today.

The company also transforms to match what consumers crave, involving entry into new segments.

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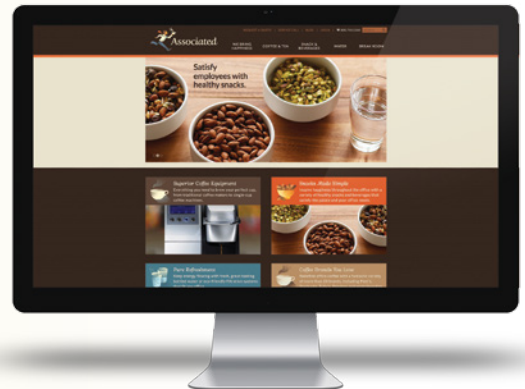
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## Modern look for a modern company

As part of a larger effort to update the company, Associated Services invested in a new online presence in 2013. Steuber hired an outside company to design a new logo and website that would reflect Associated's modern upgrades. The new website includes call-to-actions (CTAs) that prompt viewers, namely prospective clients, to enter their name and email address to access a complimentary e-guide on the topic of employee retention. The location can learn more about how refreshment services helps keep employees and Associated Services gets a new lead.

The new website also includes customer reviews, a blog and an online ordering feature.



## Avenue of growth

There was a time, Steuber recalls, when locations offered just free coffee to their employees; today, that's not the case for many. In the Northern California region, especially Silicon Valley, it has become standard for many companies competing to

retain employees to offer *more* — not just free drinks at work, but free snacks, too.

“Once Google started offering free things, other companies did so as well,” Steuber said. His customers began asking for snacks and soon Associated Services was in pantry

service, which has turned out to be a good avenue of growth for the company. “These businesses *do not* want to run out of snacks, and that means we have to be the best and make sure that doesn't happen,” stressed Steuber, who says that in many cases his customers are purchasing three to

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four times more allied products than they used to.

In fact, Associated Services has 1,700 SKUs of snack product in its warehouse. "It's like running a micro market but the product is free," he said. "The customer has money to spend and is willing to offer it as an incentive to get employees to stay."

### A unique offering

Locations enjoy being able to choose the snacks that are delivered to the office for their employees. But they also like ordering and receiving those snacks at their own convenience, said Steuber. In order to adapt with the times and keep up with how consumers spend, Associated Services invested in an online ordering feature where customers can place an order from their account on Associated's website.



"It's a feature that consumers expect," he said. "About 25 percent of our orders come from our online feature." Though it was a necessary

feature, Steuber is worried about consumer expectations since companies like Amazon and Staples can offer same-day delivery. "This isn't

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**Tor Hougen manages the company's water plant. Associated Services first got into the segment to compete against bottled water companies.**



traditional competition like it used to be," he continued. "Where the others can offer same-day delivery, it's difficult for our company to do. It's an

issue that I'm concerned about and we're looking for a solution."

Although it's a challenge that is front-of-mind for Steuber now, Asso-

ciated Services has had experience getting creative to pushback against competition.

When bottled water companies began to grow in the 1990s, Associated grew concerned that those companies might extend into coffee service. Rather than wait for that to happen, Associated Services decided it would expand into water, instead.

The company today owns and operates a bottled water plant. "The equipment is simple to operate and is inspected by the state of California," said Steuber. "It's a viable source of income for us but it's not growing." Rather, Steuber sees his locations switching to point-of-use water and water filtration, something Associated offers as well. "There is negativity surrounding bottled water because of its environmental impact and it takes up a lot of space in the



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office,” he said. “People also don’t like to change the water jug.”

Water filtration is about 12 percent of sales per year for Associated Services.

### The employee difference

Despite its range of offerings and its ability to change in a growing industry, Associated Services’ success has been due to its employees, said Steuber. “All of our employees are experts at what they do,” he said. “They are the reason we grow each year and nothing else can take credit for that.” Steuber points to the company’s low turnover rate. Employees average 10 years with Associated Services. This is, he believes, due to the strong company culture he and his parents have tried to create. “I learned early on that I have to rely on the people I work with and that includes delegating tasks, giving responsibility and trusting employees.”

The company is growing 10 percent each year and Steuber finds there is more hiring and training going on than ever before.

In the coming year, those at Associated Services will continue to watch the competition and analyze ways in which they can transform and diversify the company to remain



Customer service representative Toni Mitchell puts her clients’ needs first.

### Operation Profile Associated Services

**Headquarters:** San Leandro, CA

**Number of employees:** 130

**Number of routes:**  
36 OCS routes

an industry leader — all while keeping customer focus and service at the center of the operation. | ◀

“*[Employees] are the reason we grow each year and nothing else can take credit for that.*”

Tom Steuber, president,  
Associated Services

# Marketplace

Inquiries to Julia Sheade: Toll Free: 800-547-7377 x1608 • E-mail: jsheade@southcomm.com

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**Jennifer Saverino**  
Executive Vice President

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1. Ipsos, brand health tracker, Q3 2014

2. Nielsen, xAOC plus Convenience, latest 52 weeks ending 10/24/15

3. Nielsen, BASES® II, January 2015