

AUTOMATIC MERCHANDISER

The Monthly Management Magazine For Vending And OCS Professionals

2000 State of the Vending Industry Report



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Prosperity fuels service demand, but labor market hamstrings expansion

BY ELLIOT MARAS, EDITOR

Water, water everywhere, and all the boards did shrink. Water, water everywhere, nor any drop to drink.”

That observation, made by Samuel Taylor Coleridge's stranded mariner in 1798 (from "The Rime of the Ancient Mariner"), almost describes today's automatic merchandiser. Prosperity is everywhere around him, but very little of it meets his needs.

In fact, the biggest impact the nation's economic growth has brought to the vending industry has been negative: Help has become nearly impossible to find, pushing labor costs through the roof. In most regions, businesses are popping up everywhere, only to sap the labor pool.

Which is not to say the industry has hit the doldrums. In fiscal 1999, the automatic merchandising industry's revenue grew 4.9 percentage points over the prior year, reaching a total \$24.45 billion in sales, according to the *Automatic Merchandiser* State of the Vending Industry Report. This marks a slowdown from the previous year, when sales jumped 5.6 points over the prior year, but is nevertheless better-than-average growth.

Fiscal 1999 marked the third con-

secutive year that the revenue gain did not reflect inflation — higher product costs passed on to customers through higher prices. Inflation stayed at or below 3 points per year during the latter half of the 1990s, a factor which made it difficult for vending operators to raise prices.

In the absence of price increases,

sales per account, indicated profitability did not improve in 1999. The survey did not specifically measure profitability. Factors it did measure — sales, customer counts, route counts and employee counts — collectively painted a profit-challenged picture. Revenue per account fell while the number of routes and cus-

1999 Industry Total: \$24.45 billion

(1998 Total: \$23.3 billion)

Participants by Region:

Region	Operators
New England	4%
Middle Atlantic	13
East North Central	19
West North Central	10
South Atlantic	16
East South Central	6
West South Central	11
Mountain	6
Pacific	15



the 4.9-point gain in 1999 came from a combination of new customers and, to a lesser extent, population growth in existing accounts.

To achieve growth, operators invested more in labor, products and equipment in 1999. As a result, employee, route and customer counts all got larger. (See chart on page A-6.)

Higher investment, combined with a 5.4 percentage-point drop in

customers each increased by more than 10 points and the number of employees grew by about 8 points.

The survey also reported the larger companies grabbed a larger piece of the pie, a trend that makes sense given higher overhead costs. The extra large companies — those with \$10 million and more in sales — maintained most of their market share from last year at 65.4 percent

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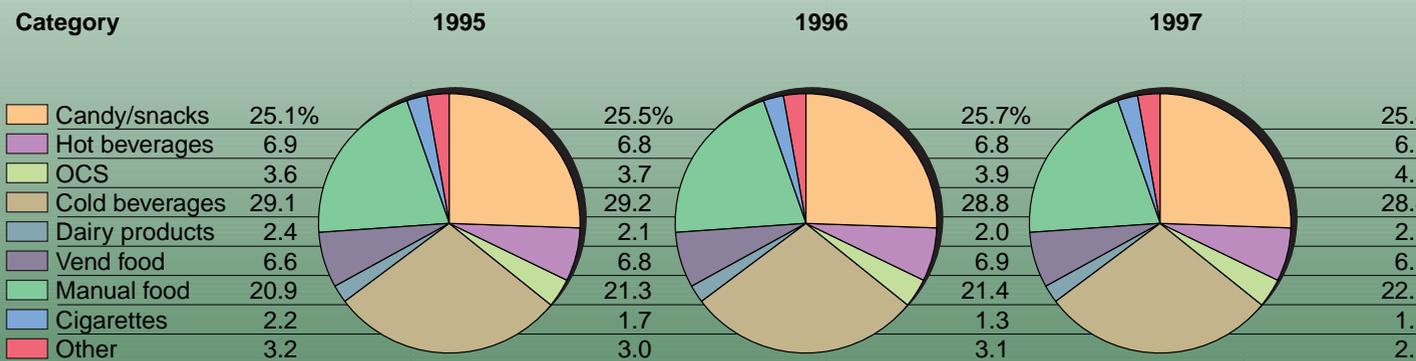
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Operator sales

Size	Revenue range	% of 1999 operators	Projected 1999 sales	% of 1999 sales	Projected 1998 sales	% of 1998 sales
Small	under \$1 million	75%	\$1.35 billion	5.8%	\$1.43 billion	6.4%
Medium	\$1 M - \$4.9 M	18	4.02	17.3	3.98	17.9
Large	\$5 M - \$9.9 M	4	2.7	11.6	2.24	10.1
Extra large	\$10 M +	3	15.21	65.4	14.58	65.6
Total			\$23.28 billion*		\$22.23 billion*	

* Does not include 5 percent of total revenue for in-house and self-operated machines.

Operator sales by product category, five-year trends



of total sales. Large firms — with \$5 million to \$9.9 million — grew their share by 1.5 points, while small firms — with \$1 million or less — lost about 0.6 points of market share. Medium-size firms — with \$1 million to \$4.9 million in sales — also lost about a half a point of market share.

Larger firms show more strength

In 1999, the extra large firms actually grew revenues per account — by four points (See chart on page A-9.) In comparing the operating results of different size firms, the survey indicated several factors that contributed to extra large firms' superior performance in this area. They charged higher prices, provided a greater variety of services, exerted more management control over product selection in machines, and utilized new technologies more. These find-

ings indicated that greater financial resources contribute to success in the today's economy.

The findings also revealed that extra large firms became more aggressive securing second-tier accounts: those that generated \$100,000 to \$500,000 in sales. This account base offered extra large operators a logical growth opportunity as the number of top-tier accounts — those in excess of \$500,000 — dwindled.

As noted in last year's report, the decline in traditional manufacturing sites has created a work force that is more diverse demographically, which has both benefits and disadvantages for vending operators. On the plus side, vendors no longer depend as much on the economic impact of a limited number of industries. The traditional manufacturing

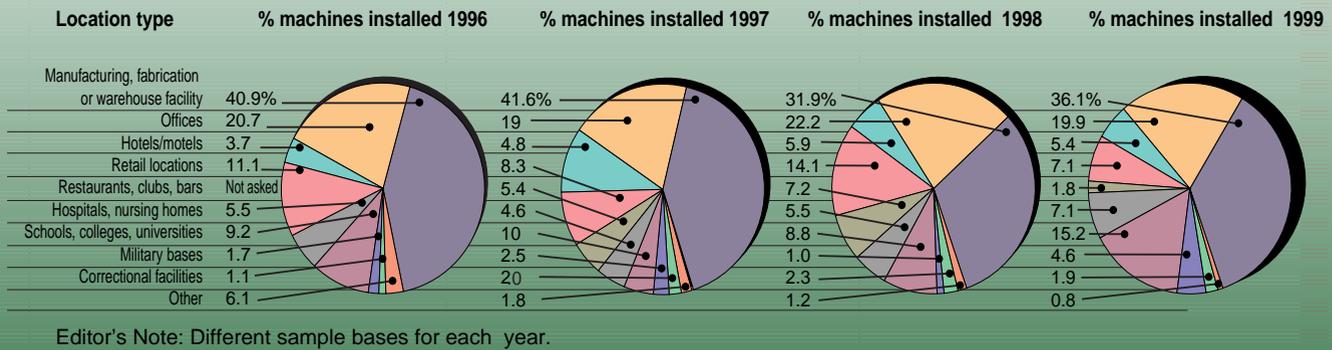
sites, however, employed more workers and were therefore more profitable. In addition, the customers in those sites were less diverse — primarily blue collar males — with more uniform tastes.

Small sites outpace large ones

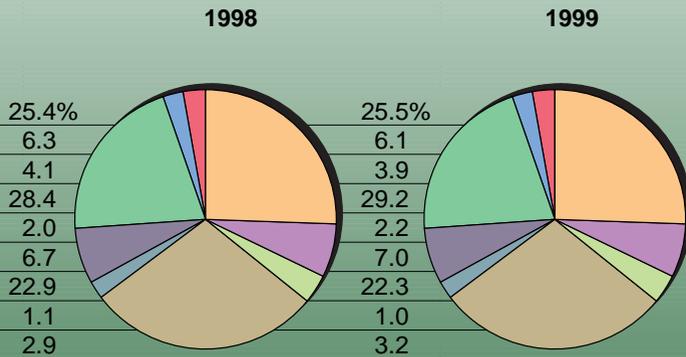
The majority of jobs created from 1994 to 1999, by contrast, were in locations with 19 or fewer people, according to Cognetics Inc., the Cambridge, Mass.-based firm that studies employment trends. Businesses of this size added 18 percent more jobs to the economy in the five-year period, while those with 20 to 99 people grew by 7 percent. Locations in this size range did not benefit the vending industry.

Sites with more than 100 people, which included most potential vending locations, grew at a much slower

Machines installed by location type



Projected 1999 sales by category



Category	1999 sales
Candy/snacks	\$6.21 billion
Hot beverages	\$1.48 billion
OCS	\$950.15 million*
Cold beverages	\$7.12 billion
Dairy products	\$536 million
Vend food	\$1.703 billion
Manual foodservice	\$5.43 billion
Cigarettes	\$243.7 million
Other	\$779.6 million

* Refers only to OCS sold by vending operations. Does not include OCS sold by dedicated OCS operations.

rate. Those with 5,000 and more people, long the industry backbone, suffered a net loss of 2.126 million jobs in the five-year period.

While the industry has never discovered a profitable way to serve small locations, some vendors in 1999 found success using a variation of cooperative service vending. Some employers, particularly fast-growing companies, wanted to provide refreshments free to employees and were willing to buy food, snacks and beverages from vendors. Operators in regions with a lot of high-tech startups were able to develop this niche. (See sidebar on page A-17.)

How the report was compiled

The State of the Vending Industry Report is based on questionnaires completed by a random sampling of 1,833 *Automatic Merchandiser* read-

Purchasing sources

Source	% expenditures from this source				
	1995	1996	1997	1998	1999
Vend/OCS distributor	29.0%	28.2%	28.7%	34.9%	42.7%
Foodservice distributors	23.0	23.6	24.4	15.6	20.7
Warehouse clubs	9.0	2.8	5.1	3.2	2.1
Manufacturer direct	11.8	15.5	12.6	14.9	9.7
Beverage bottlers	18.4	28.8	25.8	29.5	23.6
Outside commissaries	3.2	0.9	1.4	1.1	0.7
Other	5.6	0.2	2.4	0.8	0.3

Editor's Note: Different sample bases for each year.

ers. The survey generated a 22 percent response.

Survey participants were limited to full-line vending operations that sold candy, snacks, confections, cigarettes, hot beverages, cold beverages, refrigerated food, frozen food,

ice cream and manually served food. The sampling did not include music and game operators whose main business was not consumable merchandise vending, soft drink bottlers whose main business was not vend-

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Operations

The following averages apply to firms that generated sales from route operations only.

Number of routes

Year	Average # per operation	Projected U.S. total
1995	7.6	59,900
1996	8.0	63,600
1997	8.7	69,600
1998	9.7	77,600
1999	11.3	89,600

Number of accounts served

1995	194.3	1,527,000
1996	202.2	1,607,000
1997	227.0	1,816,000
1998	241.0	1,928,000
1999	272.4	2,170,000

Number of employees

1995	37.6	300,500
1996	38.7	309,500
1997	39.3	314,000
1998	43.5	348,000
1999	47.1	377,100

Number of bill changers

Year	Average # per operation placing machines	% involved	Total
1995	54.3	80%	348,600
1996	56.7	85	385,100
1997	57.3	88	403,000
1998	73.0	86	502,240
1999	78.2	85	598,230

ing, or ice cream distributors whose main business was not vending.

Aggregate revenue and equipment figures for the report were based on a total operator universe of 9,000 vending operations in the United States, along with data from the government, product suppliers and equipment suppliers. This year's operator base represents 1,000 more companies than in previous years.

The report was adjusted to reflect the growth in small operations that has occurred in the last few years. The mailing and tabulating were done by Readex Inc., a Stillwater, Minn.-based industrial research company.

The report's revenue and equipment figures include machines operated by businesses for their own use, known as in-house and self-operated machines. This portion of

the total industry is estimated to be about 5 percent.

Vending tracks fast food

While vendors may feel that the nation's prosperity has eluded them, their 1999 performance was reasonable in comparison to the foodservice industry's 5.4-point gain, as reported by the National Restaurant Association. Within the foodservice segments, full-service restaurants posted the highest increase at 6.7 points, reflecting the surge in consumer confidence and a willingness to indulge. Limited service restaurants, by contrast, grew by 4.9 points, the same as the vending industry.

In comparing performances of different product segments in the vending industry, 1999 saw trends continue from the last two years: candy/snacks/confections and cold beverages—the largest product segments at 29.2 percent and 25.5 percent of total revenue, respectively, — continued to drive growth. The fastest growing category, however, was food, a traditionally unprofitable segment, which grabbed 7 percent of the total. These were the only categories that gained market share in 1999.

The continued growth of cold food bodes well for the larger operators. As customers asked for food machines, the better-capitalized firms — the larger ones — had the wherewithal to meet these requests.

Consumer trends support food

Current lifestyle trends indicate that food will continue to play a bigger role in vending. As traditional, two-parent households have declined, so has the percentage of people eating three regular, sit-down meals per day. The eating-on-the-run lifestyle has created a demand for takeout meals, according to data from the Chicago-based foodservice research firm, Technomic Inc. Takeout meals represented about half of all sales for the nation's top 100 quick-serve, restaurant chains in 1999.

Cigarettes, which have long been sliding, was the only segment to post a revenue loss in 1999.

The weakest gain came in OCS at 1.1 points, followed by hot beverages at 2.8 points. The leveling off of OCS reflected a slowdown in the number of vendors expanding into this category. The hot beverage vending segment, meanwhile, has been losing market share to cold drinks for more than a decade.

These findings indicated that neither OCS nor hot beverage vending were able to capitalize on the new popularity of specialty coffee drinks that have revived interest in coffee in other retail channels. The National Coffee Association reported that more consumers developed a taste for coffee in recent years, but they did not consume it in the same quantities as their parents.

Economy strong everywhere

As reported last year, economic variances became less dramatic among different geographic regions as the economy grew less dependent on traditional industries. The boom in "high tech" industries in particular has neutralized regional economic performance, according to the Conference Board, a Washington, D.C.-based organization that studies economic trends. The group reported that computer-related jobs increased in every region in the last two years, even though some, such as the East North Central and Mountain regions, gained the most computer-related employment.

Last year's State of the Vending Industry Report noted that while 1998 was a weak year for automotive production (posting a 0.3 percent gain), this did not impact the automatic merchandising industry as it would have in the past, thanks to a more diverse economy.

Fiscal 1999, however, witnessed a resurgence in automotive-related activity, which fueled the vending industry's customer base. The num-

How much authority drivers have in deciding what products go in the machines

	All firms	Small	Medium	Large	Extra Large
Authority for all products	26%	30%	18%	0%	13%
Half or more of products	21	18	29	50	15
Less than half	24	16	46	33	69
None	21	25	7	17	3
No answer	8	11	0	0	0

How drivers are compensated

	All firms	Small	Medium	Large	Extra Large
Salary only	43%	44%	54%	0	14%
Commission only	6	5	7	25	3
Combination	23	16	32	67	83
Other	23	29	7	8	0
No answer	5	6	0	0	0

Acquisition activity

	1997	1998	1999
% operations that acquired other operations	13%	13%	16%
% operations that sold some part of operation	7	6	6
% that did both of the above	7	9	6
% that did neither	72	71	69
No answer	1	1	2

Other types of vending-related revenue reported

Type	% involved 1995	%1996	%1997	% 1998	%1999
Bottled water	6%	21%	25%	32%	33%
Sundries/toiletries	5	17	11	14	14
Games	12	13	12	11	13
Music	7	11	10	9	9
Bulk vending	4	8	12	12	15
Kiddie rides	0	3	4	4	3
Cooperative service vending	2	5	4	3	3
Condoms	1	5	3	4	5

ber of cars produced jumped by about 10 percentage points to 17,582,691 vehicles, according to the Detroit-based Automotive News Data Center, marking the auto industry's best performance in a decade. This benefited vending operations in regions with a lot of automotive-relat-

ed accounts, such as the South Atlantic, East South Central and East North Central regions.

Vendors in these regions reported a renewed willingness among manufacturing plants to subsidize manual foodservice.

What is often referred to as "high

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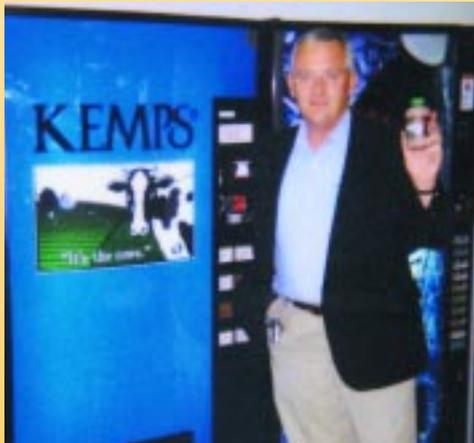


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MINNESOTA OPERATION CONVERTS CAN DRINK VENDERS TO MILK MACHINES

Many operators credit aseptic, resealable, plastic milk containers with giving new life to the milk category. Some have built dedicated milk machines by filling bottle venders with milk.

D & R Star Inc., based in Rochester, Minn., has taken a different direction and capitalized on the renewed interest in milk using dedicated can drink machines. The can machines' lexan fronts are simply replaced with a milk graphic front. The company buys 12-ounce bottles of 2 percent fat regular and chocolate milk from a local dairy. The milk bottles are priced at 80 cents.



Dave Bloomquist has found strong customer acceptance of 12-ounce milk.

The converted can machines represent D&R Star's first dedicated milk venders to offer the convenience of dollar bill acceptors, noted Dave Bloomquist, vice president of marketing.

Besides capitalizing on milk's new popularity, the new machines have provided an alternative use for the company's can drink machines, which are being replaced by bottle machines.

The converted can machines, placed next to refrigerated food machines, free up space in the food machine for fresh and frozen food.

Results have been encouraging to date, according to Bloomquist. The milk machines have averaged \$150 per week in sales.

The company will expand beyond industrial accounts and begin placing the dedicated milk machines in educational accounts, Bloomquist said.

tech" or "new economy" has been the major employment generator nationwide. These terms encompass both service and manufacturing industries. High-tech "service" typically refers to telecommunications and computer software assistance. High-tech "manufacturing" encompasses computers, electronics, medical supplies, semiconductors and communications equipment.

Internet changes the economy

According to the Conference Board, the "services" portion of this segment grew from 43 percent to 59 percent from 1982 to 1998. Much of this has been credited to the Internet.

While the "new economy" lavished jobs in all regions, the Pacific

region benefited the most, averaging a 7.8 percent annual employment gain since 1995. This region was home to 23 percent of all high-tech jobs in 1999, compared to 15 percent of all jobs.

The West Central region, particularly Texas, saw the second highest growth in high-tech jobs in the late 1990s, averaging 7.6 percent per year and more than tripling the rate in the early 1990s. And, as noted in last year's report, that region was less impacted by oil price fluctuations than in the 1980s. Oil prices slid in 1998.

The South Atlantic region, which suffered the loss of textile plants for two decades, also grew its high-tech base faster than most regions, commanding 17.3 percent of the total in

1998. The decline in textile manufacturing bottomed out in 1998, causing a rebound in traditional manufacturing activity. The region did suffer from Hurricane Floyd in 1999, primarily in its agricultural output.

Both the Northeast and Mountain regions benefited from an uptick in demand for exports in 1999, as foreign economies recovered from the Asian stock market crash which hurt American export industries in 1998.

Changes favor big operators

While the "new economy" was a great employment generator, it also brought a customer base characterized by smaller concentrations of more diverse (in gender, cultural background and age) and more transient workers. It is a customer base that the larger vending operators have demonstrated a greater ability to serve.

In comparing the performances of different size vending firms, the following observations emerged:

- In the candy/snack/confection segment, the large and the extra large operators required drivers to use planograms more than medium-size and small firms.

The larger firms sold more candy, bagged chips and pastries and fewer cracker sandwiches and nuts as a percent of sales. More importantly, the extra large firms sold considerably fewer items in the "other" category, indicating they possessed a better understanding of what was placed in their machines.

- Larger operators charged more for cold beverages.

- Extra large operators sold the most bottle beverages, the single fastest growing product category, as a percent of cold drink sales, almost 30 percent of the total. Small operators sold the least at 12.7 percent.

- Extra large operators used more temperature-controlled trucks; such trucks represented 16 percent of their fleets versus 9 percent for large operators and zero for medium-

size and small vendors. (See chart on page A-18.) Temperature-controlled trucks were typically used for dedicated food routes, which proved to be more cost efficient for companies active in the critical food segment.

- Large and extra large firms placed more commercial versus consumer microwave ovens than medium-size and small firms. (See chart on page A-19.) This indicated these firms delivered a better managed vend food program.

- Extra large operators sold the most fresh-brew specialty coffee as a percent of hot beverage sales, 10.3 percent, and charged the most for it.

Specialty coffee was the highest price coffee sold in vending machines in 1999.

- Almost half of the large and extra large operators used handheld computers, 47 and 43 percent, respectively, compared to 19 percent of medium-size firms and 8 percent of small firms. (See chart on page A-23.) This indicated these firms exerted better control of operations.

- Large and extra large companies used the Internet more. (See chart on page A-23.) While not a lot of marketing was done on the Internet, it emerged as a tool in the new field of remote machine monitoring.

Electronic revolution grows

Large operators' greater use of technology will continue to pay off as equipment evolves. In 1999, more machines were sold with state-of-the-art electronics. In particular, the use of electronic data in vending machines strengthened driver accountability, improved accuracy of

reports, and provided better data for managing operations.

Category management software programs also improved in 1999. Category management is a system that delivers the product variety consumers seek, simplifies product selection at the route and warehouse levels, and provides the proper information to better control the machine menu. In 1999, category management software was released by Nabisco Inc. and several computer software companies.

Larger firms offer more services

In addition to all of the above, the bigger firms offered a wider scope of customer services, including OCS, manual foodservice, ice cream, milk and cold food. More services provided additional sales muscle. The ability to offer foodservice, milk, ice cream and/or fresh food gave some operators extra leverage to raise snack and soda prices.

Better-capitalized firms will find themselves at an even greater advantage when the need to upgrade bill acceptors takes effect. In 1999, the government released designs for the new dollar coin and the new five- and 10-dollar bills. While the new dollar coin will not require costly retrofits of bill changers and acceptors, the same will not hold true for the new fives and tens. Vendors will need to upgrade currency handling equipment.

As a verification of the advantages enjoyed by the larger firms, consolidation activity among vending operations increased in 1999. Sixteen percent of the operators reported acquiring another operation, the most in three years. (See chart on page A-7.)

In 1999, Philadelphia-based ARAMARK Corp. acquired Phoenix-based Restaura Inc., one of the largest vending/foodservice transactions ever. Most of Restaura's business was incorporated

into ARAMARK's business dining services division. In addition, Dallas, Texas-based Custom Food Group acquired Shreveport, La.-based Pickett Industries Inc. and several smaller Texas operations. CFG also acquired Texas-based Refreshments Vending from Coca Cola Enterprises Inc. and split Memphis, Tenn.-based Serv-O-Matic with Dalton, Ga.-based Five Star Food Service Inc. Other regional operations hot on the acquisition trail in 1999 were Brockton, Mass.-based All Seasons Services Inc. and Muskegan, Mich.-based Consolidated Vendors Corp.

Following is a more detailed analysis of the major product segments.

Bottles keep climbing

Once again, bottles were the fastest growing product type. No single category generated as much incremental sales in 1999, which marked the fourth consecutive year bottles grew their share of the cold beverage business. The trend began in 1996 when equipment manufacturers introduced machines capable of vending 16- and 20-ounce bottles in addition to 11-ounce cans. The newer machines enabled vendors to capitalize on the popularity of 20-ounce, PET bottles that quickly dominated single-serve sales in other retail channels.

Dedicated bottle machines accounted for 18.5 percent of all machines in 1999, more than doubling 1998's share. Fiscal 1999 also marked the third straight year that revenue from bottle drinks posted double-digit growth, accounting for almost a third (27.2 percent) of all cold drink sales.

One tactic that proved especially effective in building cold beverage sales for operators was establishing dedicated bottle routes. This brought productivity gains not just to bottle sales, but to can sales as well. Trucks carrying only bottles or only cans and dry goods were able to deliver to locations faster than those carrying all three. More larger operations

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Average revenue per account

	1998	1999	% Change
Small firms	\$11,500	\$11,000	-4.34%
Medium-size	\$211,300	\$196,700	-6.9
Large firms	\$257,800	\$242,500	-5.9
Extra large firms	\$153,700	\$159,900	+4.0



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established dedicated bottle routes than smaller operations in 1999.

Operator objections to bottles persisted in 1999. Bottles required investment in new machines and, as indicated, oftentimes new vehicles. In addition, drivers resisted switching to bottles since they're heavier and take longer to load.

Many operators maintained that cans generated more volume because the smaller size encouraged additional purchases. Gross profit on cans was also higher on a percentage basis.

Bottles: pros outweighed cons

But for many, bottles' pros outweighed the cons. Most operators that expanded into the bottle business claimed bottle machines brought incremental sales; cans were not cannibalized. In addition, the higher price points helped get con-

mass merchant beverage machines, wanted to maintain the higher price points in the bottle machines.

Carb/non-carb mix holds

The move to bottles did not change the mix of carbonated and alternative products. However, most operators reported selling more alternative, non-carbonated drinks in 1999, supporting trends reported for the beverage industry as a whole.

The survey did not break out cold drinks by type, but anecdotal evidence indicated that bottled water remained the fastest growing cold drink for the third consecutive year.

Facilitating the double-digit growth in cold water drinks, as measured by the New York City-based Beverage Marketing Corp., was Coca-Cola Co.'s introduction of its own branded bottled water, Dasani.

years of negative to less-than-one-point growth, according to BMC. Vending operators in particular found fruit-based beverages and ready-to-drink teas useful in competing against bottlers for educational accounts. Brands such as Veryfine and Welch's gave vendors a chance to offer drinks sought by educational accounts not offered by beverage bottlers.

Non-carb drinks grow faster

Interviews with operators indicated sports drinks, also known as isotonic, grew as a percent of sales. This again supported beverage industry trends, as these drinks posted their second consecutive, double-digit market share gain in 1999, according to BMC. A vending machine initiative by market leader Gatorade undoubtedly contributed to this in 1999.

The introduction of milk packaged in single-serve, resealable, plastic bottles added still another alternative drink that made its way into cold drink machines in 1999.

Milk, which is shipped through its own distribution network, posted a one-point gain in its share of the total beverage market in 1999, following four years of losses, according to BMC.

While milk has traditionally been vended in dedicated dairy machines and cold food machines, the new configuration unleashed a new opportunity for vendors.

Milk was not readily available in every market, but many vendors reported success with the new bottled milk in educational and industrial accounts. Operators even reported success dedicating entire beverage machines to milk in both types of accounts in 1999.

Two equipment manufacturers — U-Select-It Corp. and Automated Merchandising Systems — introduced combination milk/cookie machines in 1999 designed to carry the new plastic bottles.

Cold cup vending continued to

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Cigarette machines

Year	Average # per operation placing machines	Percent of firms involved	Projected total
1995	37.3	36%	106,700
1996	32.5	31	79,900
1997	32.3	23	58,800
1998	30.3	21	52,000
1999	25.4	21	41,600

(Editor's Note: These figures apply to activity by full-line vending operations, and do not include dedicated cigarette machine operators or amusement machine operators.)

sumers in the habit of spending more for vended products, a benefit that many believe will eventually carry over into the candy/snack machines.

Still another benefit bottles provided was they took vendors out of the price war they have long endured with can machines. Vendors have been plagued for years by supermarkets and mass merchants undercutting their retail prices in can beverage machines. This was not the case with bottle machines.

Many operators interviewed acknowledged that bottlers, who operated most supermarket and

The company launched a vend-specific marketing campaign in 1999 to support the product.

Bottled water increased its share of the total beverage market every year since 1994 through 1999, when it commanded 8.1 percent of the market, according to the BMC. Fiscal 1999 marked the segment's fastest growth to date at 12.8 points over 1998.

While no cold drink category came close to matching bottled water's growth rate, fruit-based drinks and ready-to-drink tea gained 1.6 and 1.9 points, respectively, following four

Cold beverage machines – total

Year	# machines/operation	Projected total
1995	160.3	1,242,360
1996	177.5	1,278,090
1997	192.3	1,375,800
1998	218.8	1,487,840
1999	233.3	1,613,800

(Editor's note: These totals do not include all bottler-owned machines loaned to vending operations, or any bottler-placed machines.)

Cold beverage machines by type • four-year trends

Machine type	% of total				Projected total			
	1996	1997	1998	1999	1996	1997	1998	1999
Can	86.7%	81.4%	78.1%	68.8%	1,115,907	1,119,901	1,162,003	1,111,894
Bottle	2.3	6.3	7.2	18.5	29,603	86,675	107,124	298,553
Cup	3.5	3.5	4.1	2.6	45,048	48,153	61,001	41,958
Dedicated can juice	4.9	4.9	5.2	5.7	63,067	67,414	77,368	91,986
Combination bottle/can	2.3	3.3	5.0	3.4	29,603	45,401	74,392	54,869
Other	0.2	0.1	0.4	0.9	2,574	1,376	5,952	14,524

Cold beverage sales — four-year trends

Beverage type	% of sales				Projected total			
	1996	1997	1998	1999	1996	1997	1998	1999
Can beverage	80.8%	79.9%	75.5%	67.7%	\$4.96B	\$5.08B	\$4.8B	\$4.82B
Bottle beverage	6.8	13.0	18.5	27.2	417.5M	826.8M	1.17B	1.94B
Cup beverage	5.8	5.8	5.2	4.9	356.1M	368.9M	331M	348.1M
Other	6.6	1.3	0.8	0.3	18.4M	82.7M	51M	2.1M

Average prices — four-year trends

Beverage type	1996	1997	1998	1999
Can beverage	58 cents	58 cents	59 cents	57 cents
Bottle beverage	89	90	90	93
Cup beverage	59	51	49	47

1999 cold beverage prices by region, given in dollars

	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Can	.69	.61	.56	.55	.56	.55	.56	.54	.60
Bottle	1.05	.97	.95	.98	.84	.94	.84	.86	1.00
Cup	.51	.50	.50	.44	.38	.47	.50	NA	.48

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CONTINUED

Candy/snacks/confections

Require drivers to use planograms for candy/snack machines

Small	Medium	Large	Extra Large
17%	26%	75%	72%

Year Projected total machines

1997	1,367,511
1998	1,512,775
1999	1,676,900

1999 snack machines by type

Machine type	% of total	Projected total
Glassfront	84.4	1,415,303
Columnar candy	3.1	51,983
Columnar pastry	1.8	30,184
Honor boxes	9	150,921
Other*	1.7	28,507

*Includes tabletop and combination machines

Candy/snack revenues — four-year trends

Category	% of total				Projected total			
	1996	1997	1998	1999	1996	1997	1998	1999
Candy	27.9%	27.7%	30.2%	30.9%	\$1.5B	\$1.58B	\$1.79B	\$1.92B
Bagged/boxed candy	3.3	2.8	3.3	6.8	176.8M	158.7M	195.4M	422M
Gum/mints	4.8	4.4	5.7	4.2	257.3M	249.5M	337.4M	260.7M
Bagged chips	27.3	26.6	27.8	28.5	1.46B	1.5B	1.64B	1.77B
Bagged crackers	2.3	2.4	1.7	3.1	123.3M	136M	100.6M	192.4M
Cracker sandwiches	7.0	8.7	5.9	4.0	375.2M	493.3M	349.3M	248.3M
Bagged/jumbo cookies	6.8	5.4	7.6	5.0	364.5M	306.2M	500M	310.3M
Pastries	14.1	15.7	12.6	12.7	755.7M	890.2M	746M	788.3M
Nuts	1.9	2.4	2.2	1.4	101.8M	136M	130.2M	86.9M
Microwave popcorn	2.3	2.0	2.1	1.8	123.3M	113.4M	124.3M	111.7M
Other	1.9	2.2	1.0	1.6	101.8M	124.7M	5.92M	99.3M

Average price points • four-year trends

	1996	1997	1998	1999
Candy bar	57 cents	57 cents	58 cents	58 cents
Bagged/boxed candy	59	59	62	65
Gum/mints	43	43	42	43
Bagged chips	49	49	50	51
Bagged crackers	52	51	54	53
Cracker sandwiches	50	49	52	51
Bagged/jumbo cookies	59	58	60	63
Pastries	66	66	69	71
Nuts	53	51	53	54
Microwave popcorn	66	63	64	66

lose market share for the fourth straight year, accounting for only 2.6 percent of the machines and 4.9 percent of the sales. Much of the loss can be credited to the growth in bottles. The average price point also fell for the fourth year in a row, to 47 cents.

Snacks: Bags still grow

For all the efforts snack and candy manufacturers have taken to convince operators of the importance of having the right product mix in recent years, little changed in snack machine product mix in 1999. Candy and bagged chips continued to command the lion's share of the machine space at 30.9 and 28.5 percent, respectively.

These percentages represented slight increases at the expense of other categories, such as cracker sandwiches, bagged/jumbo cookies, and gum/mints. The increases can largely be credited to larger operators. The survey reported that most large and extra large operators, unlike most medium-size and small operators, planogrammed their snack machine menus. Planograms are a tool that gives management more control over product mix in the machine.

To facilitate these category management efforts, Norwood, Mass.-based Streamware Corp. and

Pittsburgh, Pa.-based Management Science Associates Inc., provided vending-specific market share information. These reports were the first to provide machine-based, historical data for selecting products.

The State of the Vending Industry Report indicated bagged chip prices rose slightly during the last three years, which was most likely due to increased placements of large-size-serving (LSS) bags. Interviews with operators indicated that this movement tapered in 1999.

Fiscal 1999 also witnessed more snack mix product introductions from General Mills, bolstering the bag chip segment.

Bag/boxed candy gains

The biggest change in product mix in 1999 was a near doubling of bagged/boxed candy's market share. This most likely reflected increased placements of the larger size bags of individually-wrapped candy, which would also explain the slight price point gain reported in this category. Once again, the impact of the larger firms played a role. The extra large operators carried more bagged/box candy than other operators.

Candy bars held onto the gain they posted in the previous two years, following a decline caused by

price increases in 1995 and 1996. Some of this increase can be attributed to marketing initiatives by M&M/MARS and Hershey Foods to promote dedicated, branded candy machines in 1999.

Bag crackers rebounded a bit in 1999 after dipping the previous year. This was one growth area not led by larger operations. Small operators sold more crackers than other size operations. Extra large operators sold fewer bagged crackers in 1999, which could account for the product's price point dip.

Pastries held onto the higher market share they grabbed in 1998 and posted a slight price increase in 1999.

Price increases were also reported for cookies, even though the segment lost market share. Cookies and pastries were two categories within the candy/snack/confection segment where operators were able to promote freshly baked, signature brands.

Coffee still needs a perk

The mild winter in 1999 didn't help hot beverage sales, but that wasn't the main reason for the segment's substandard performance. Hot beverage vending, despite machine manufacturers' best efforts, has fought a shift in consumer drinking habits for the past two decades.

The younger generation, raised on

carbonated beverages, does not consume coffee the way their parents did.

Hot beverage sales did post some improvement from 1995 to 1997, but were not able to hold onto it. In 1994, equipment manufacturers introduced dual-cup machines with bean grinders that gave the category some excitement. Sales of fresh-brew coffee were further propped up in 1997 by price increases made by possible by widely-publicized green coffee price increases. Some operators also credited some improvement to specialty and flavored coffees.

But the segment slid in 1998 and has not recovered. Pricing in 1998 and 1999 has not even matched 1997 levels, the survey indicated. Operators interviewed reported that whatever interest there was in specialty and flavored coffees peaked in 1997.

Much of the difficulty can be traced to competition from specialty coffee stores and convenience stores, both of which marketed higher-quality coffee to consumers throughout the 1990s. The most recent National Coffee Drinking Trends Report from the New York City-based National Coffee Association indicated the coffee market has grown, thanks largely to the popularity of gourmet coffee. The market for gourmet coffee increased from 3 to 9 percent of the

CONTINUED

1999 candy/snack/confection prices by region

(Prices given in cents)

	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Candy bar	58	61	57	57	57	56	57	59	61
Bagged/boxed candy	62	62	72	65	62	55	60	59	69
Gum/mints	49	45	42	43	40	39	41	41	48
Bagged chips	52	50	48	53	49	45	50	49	62
Bagged crackers	60	52	55	50	50	48	49	51	61
Cracker sandwiches	54	52	52	51	48	44	51	51	56
Bagged/jumbo cookies	70	63	64	65	59	55	66	59	69
Pastries	79	72	74	71	60	62	69	77	86
Nuts	57	60	54	57	50	48	54	53	55
Microwave popcorn	73	66	69	68	61	59	66	65	71



CONTINUED

Hot beverage machines – total

Year	Projected total
1995	355,320
1996	368,025
1997	377,225
1998	386,600
1999	411,000

Hot beverage machines by type • four-year trends

Type of machine	% of total				Projected total			
	1996	1997	1998	1999	1996	1997	1998	1999
Fresh-brew, preground	51.2%	50.1%	49.4%	52.5%	188,429	188,990	189,989	215,775
Fresh-brew, whole bean	28.5	31.2	32.0	29.7	104,887	117,694	122,712	122,067
Dedicated freeze-dried	15.4	14.7	15.3	12.3	56,676	55,452	58,150	50,553
Single-cup*	NA	3.1	3.3	5.0	NA	11,694	15,629*	20,550
Other	4.9	0.9	0.0	0.5	1,472	3,395	0	2,055

* Does not include OCS applications, which are the majority of single-cup brewers.

Hot beverage sales — four -year trends

Type	% of total				Projected total			
	1996	1997	1998	1999	1996	1997	1998	1999
Fresh-brew regular	58.4	52.8	55.6	59.5	\$835.1M	\$792.0M	\$816M	\$880.6M
Fresh-brew decaf	8.0	12.5	7.7	7.4	128.9M	187.5M	141M	109.5M
Fresh-brew specialty/flavored	NA	11.8	9.0	8.1	NA	177.0M	129M	119.9M
Freeze-dried regular	5.8	3.5	5.6	6.7	82.9M	52.5M	82M	99.2M
Freeze-dried decaf	2.9	1.4	0.7	2.0	41.5M	21.0M	10M	29.6M
Freeze-dried specialty	6.6	2.8	6.0	4.1	94.4M	42.0M	88M	60.7M
Tea	1.5	2.1	7.6	2.0	21.5M	31.5M	105M	29.6M
Hot chocolate	7.3	11.1	7.6	8.1	104.4M	166.5M	105M	119.9M
Soup	NA	2.1	0.0	1.4	NA	31.5M	0	20.7M
Other	9.5	0.7	0.0	0.7	31.5M	10.5M	0	10.4M

Hot beverage prices, averages in cents

	1996	1997	1998	1999
Fresh brew regular	37	39	38	36
Fresh-brew decaf	38	40	40	36
Freeze-dried regular	33	32	33	36
Fresh-brew specialty	46	51	48	42
Freeze-dried decaf	33	34	34	36
Freeze-dried specialty	43	38	44	45
Tea	34	36	37	35
Hot chocolate	36	40	38	39
Soup	NA	39	38	36

adult population in 1999.

However, the NCA report also indicated consumption on a per-capita basis remained flat through the last decade at 3.1 cups per coffee drinker per day. The report is based on telephone interviews with 2,950 consumers 18 years and older.

The NCA credited much of the improvement in consumer perception of coffee to companies such as Starbucks, Caribou Coffee and Seattle's Best Coffee, one of which has had a presence in the vending channel.

Some of the vending industry's competition came from OCS, which grew steadily as a percentage of vending industry sales from 1995 to 1998. This gain largely reflected vendors' expansion into OCS, which leveled off at about 35 percent in the last few years. (The OCS revenue reported in the State of the Vending Industry Report includes sales to vending accounts and not sales to dedicated OCS accounts.)

Where competitive channels, including OCS, sought to improve sales by providing better quality coffee, The State of the Vending Industry Report indicated a portion of the vending industry turned to freeze dried coffee in 1999.

The survey reported a slight increase in market share for freeze-dried coffee; freeze-dried, regular grew from 5.6 to 6.1 percent in 1999.

COMPANIES ON FAST TRACK WANT TO PROVIDE EMPLOYEES FREE PRODUCTS

The tight labor market has employers doing anything and everything to attract good help, including offering free snacks. This has created a market niche for many aggressive vending operators.

In San Jose, Calif., many up-and-coming "dotcom" companies are buying snacks and beverages from vending operators, which they then offer for free to employees. Gemini Vending Systems Inc., based in San Jose, Calif., is one of several operations in Northern California that has, for the first time, found a way to serve accounts with 21 to 50 people and make money. "We are looking at that type of account," said Jeff Cooks, president of Gemini Vending Systems. In such instances, Cooks provides vending machines at no charge, then delivers snacks, beverages, and even food.



Dave Cooks of Gemini Vending Systems Inc. in San Jose, Calif. believes he has found a way to serve accounts with 21 to 50 people profitably.

The product mix is fairly close to what traditional vending customers receive, Cooks said, although these accounts buy more fresh fruit and frozen entrées.

When Cooks first heard that some customers were willing to provide free refreshments a couple of years ago, he was skeptical. He envisioned higher receivables. On this count, he was right. "Now we are waiting an additional 30 days to receive that money," he said. Nevertheless, these accounts represent a new market with low service costs.

About 20 percent of Cooks' accounts fall into this new customer base. He sees potential to build it even more, but he is cautious. The demand has been fueled by a fast-growing sector of the economy, and that growth may not last much longer. Many of these businesses are young. "A lot of these companies still don't have product that they can sell," he noted.

Cooks reasons it could be dangerous to depend too heavily on start-up businesses. "I don't want to be stuck with a large amount of these companies," he said.

Hot beverage prices by region, 1999

	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Fresh brew regular	42	41	35	30	41	35	35	38	35
Fresh-brew decaf	41	36	37	29	44	36	35	40	34
Freeze-dried regular	40	53	32	30	42	35	33	32	39
Fresh-brew specialty	40	40	42	36	47	42	41	37	43
Freeze-dried decaf	40	33	32	34	46	35	34	32	37
Freeze-dried specialty	42	55	34	48	51	NA	42	45	57
Tea	46	34	34	35	42	30	34	33	36
Hot chocolate	45	47	35	40	44	41	34	40	38



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TYPE OF TRUCK USED FOR TRANSPORTING FRESH FOOD

	All firms	Small	Medium	Large	Extra Large
Regular trucks with coolers	16%	9%	21%	45%	16%
Temperature-controlled trucks	2	0	0	9	16
Both	5	2	4	9	34
Did not use fresh food	78	89	75	36	33

Some roasters attempted to revive the water-soluble segment in 1999. Many operators, particularly the smaller ones, preferred freeze-dried since it is more profitable and easier to service. The survey reported smaller operators sold the most freeze-dried coffee.

Roasters continued to offer

Food machines – total

Machine type	1995	1996	1997	1998	1999
Refrigerated	164,992	164,245	165,100	176,753	177,150
Frozen	1,800	4,250	7,217	13,367	19,017
Heated	NA	2,358	2,300	1,900	1,900
Ambient	NA	NA	1,100	1,200	1,070
Food systems (pizza, popcorn, french fries)	1,088	1,128	1,100	1,275	1,580

Vend food sales • four-year trends

Source	% of sales				Projected total			
	1996	1997	1998	1999	1996	1997	1998	1999
Freshly-prepared	62%	62.1%	62.1%	63.7%	\$886.6M	\$943.9M	\$968.7M	\$1.08B
Frozen-prepared	22.6	24.8	23.5	26.9	323.2M	376.9M	366.6M	458.1M
Shelf stable	14.6	11.0	9.8	8.2	208.8M	167.2M	152.8M	139.6M
Other	1.5	1.4	4.6	1.2	21.5M	21.3M	71.7M	20.4M

Vend food prices • four-year trends

Type	1996	1997	1998	1999
Freshly-prepared	\$1.43	\$1.46	\$1.52	\$1.47
Frozen-prepared	1.41	1.51	1.48	1.44
Shelf stable	1.13	1.15	1.20	1.26

Food prices by region, 1999 (Given in dollars)

	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Freshly-prepared	1.87	1.75	1.43	1.28	1.37	1.48	1.43	1.62	1.74
Frozen-prepared	1.64	1.57	1.40	1.48	1.39	1.28	1.43	1.30	1.60
Shelf stable	1.14	1.54	1.26	1.14	1.00	1.68	1.25	1.62	1.48

1999 Commissary operations

Operated a commissary	11%
Percent of food sold that was made in commissary	61.5%
Number of full- and part-time commissary employees	9.0
Food spoilage	8.8%

Commercial versus consumer microwave ovens

	Small	Medium	Large	Extra Large
Commercial	54.2%	63.8%	87.5%	86.4%
Consumer	45.8	36.2	12.5	13.6

branded machines as a way to revive hot drink sales. Branded coffee machines have been tested over the years, but have never won widespread operator support. In 1999, some operators reported success with the Nestlé Foodservice machine in public locations. (See sidebar, page 21.)

Extra large operators continued to rely more on fresh-brew coffee, and placed the most fresh-brew machines and the most units equipped with bean grinders in 1999. The extra large firms also charged the most for fresh-brew specialty coffee in 1999.

Food: Did someone say fresh?

While not many operators were happy about it, cold food posted the fastest growth rate, 11.8 points, of any product category in 1999, and grabbed a bigger piece of the total vending pie at 7 percent. Food has long been viewed as an unprofitable business that is needed to support beverages and snacks. One bright spot in 1999 was that food machine placements did not increase as much as they have in the past.

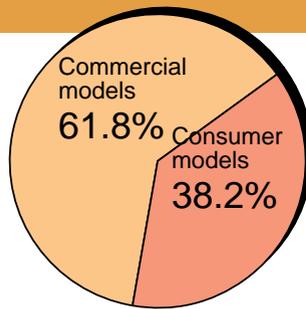
Fewer food machine placements in 1999 indicated operators resisted requests to place machines in locations that could not support them.

Interviews with operators revealed that very few placed machines in locations with fewer than 100 to 150 people. This range has held for the past several years. Fears that competitive pressure would drive food machines to accounts with lower populations did not materialize.

Frozen food venders increase

Frozen food machines continued to increase at a rapid clip, a trend that

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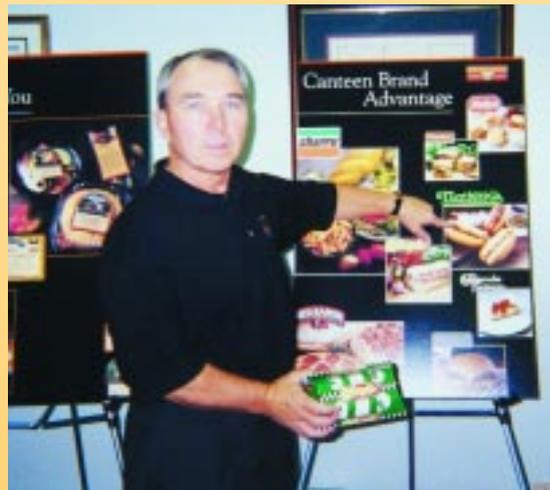
Average wattage: 876

RESTAURANT BRANDS BRING NEW AUDIENCE TO SOUTHEAST OPERATOR

Many people were surprised when RE Services Inc., based in Lafayette, Ga., became a Canteen franchise last year. People familiar with the company knew that RE Services already enjoyed a reputation for culinary excellence and had one of the strongest training programs in the industry. What did they need Canteen for?

One reason was the restaurant branded food Canteen was using. Canteen made headlines in 1998 by signing exclusive distribution agreements with several name brand restaurants, including Hardee's, Rally's, Blimpie, Sbarro, Sagebrush Chili, Cheesecake Factory, and Nathan's Famous. RE Services Inc., which long prided itself on its signature food offerings, saw enough value in name brand products to join the Canteen organization as a franchisee. RE Services already saw the benefit that name brand products provided, particularly in the cold food business, having carried items such as Red Baron and White Castle.

Brothers Stan and Steve Ledbetter, who own RE Services, also liked some of Canteen's proprietary machine styling. But the name brand food was the driving factor in deciding to become a Canteen franchisee.



Stan Ledbetter of RE Services is betting on a big future in branded food vending.

"The branded foods are growing in double digits," said Stan Ledbetter.

As a Canteen franchisee, Ledbetter also takes advantage of the restaurant coupons that are available to Canteen outlets. Coupons for the restaurant brands are attached to the vended items and redeemed at restaurants. For instance, a customer can pay \$2.50 for a Blimpie sandwich and receive a coupon worth \$1.00 redeemable at a Blimpie restaurant. The coupons are usually offered to new accounts for about a month and a half, Ledbetter said.

The restaurant branded items are typically priced 25 cents and more above the commissary-produced, signature products, Ledbetter noted.

The sales lift has also resulted in lower stales, he added. "We're actually selling more and staling out less," Ledbetter said.

RE Services produces some of the Blimpie sandwiches in their own commissary. Other branded items are shipped in from Canteen culinary centers or from VSA Inc.



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began in the early Nineties. The gain over 1998, 42 percentage points, marked a slowdown over earlier years, which was expected for a new category of equipment.

Within the food segment, frozen and fresh-prepared food both gained at the expense of shelf-stable products in 1999, indicating operators used better quality products.

While many operators relied on fresh food to distinguish their service from competition, price points for both fresh and frozen-prepared products dipped in 1999, reflecting both the high level of competition and the price sensitivity of the industry's highest-priced segment.

Operators once again welcomed the proliferation of national name

brand food items in 1999. Name brands in any segment benefit the industry's overall image.

In 1999, Amour Swift Ekrich rolled out vend-specific items under its Healthy Choice, Butterball, Armour and Lunchmaker labels while Smiley's introduced Po' Folks, Lender's Bagels, Steak-Umm's and Lloyd's Barbecue. These products joined established names in vending such as Pierre, White Castle, Weight Watchers, Budget Gourmet and Red Baron.

While operators welcomed the influx, they were not able to utilize the brands to raise prices, industry-wide. Anecdotal evidence, however, showed that some operators were able to use the new items to break the \$2.00 price ceiling. Last year, the survey reported that Canteen Vending Services Inc. charged \$2.50 in many markets with some proprietary restaurant brands. (See side-

Dedicated dairy product machines* – total

Year	Projected total	
1995	96,915	
1996	91,665	
1997	95,790	
1998	98,502	
1999	100,461	
	Milk machines	Ice cream machines
1996	35,291	55,090
1997	28,737	67,053
1998	42,015	56,487
1999	57,530	42,931

Editor's Note: These numbers do not include machines operated by dedicated ice cream or milk specialists.

Dairy sales* • four-year trends

	% of sales				Projected total			
	1996	1997	1998	1999	1996	1997	1998	1999
Milk	73.8%	65.1%	60.9%	74.5%	\$325.9M	\$287.7M	\$280.0M	\$399.30M
Ice cream	23.8	30.2	36.9	21.3	105.1M	133.5M	176.0M	114.17M
Frozen confections	2.4	2.3	2.2	2.1	10.5M	10.2M	10.2M	11.25M
Other	NA	2.3	0	2.1	NA	10.2M	0	11.25M

* Includes dairy products sold through dedicated dairy machines, not general food merchandisers or frozen food machines.

Dairy prices, given in dollars • four-year trends

	1996	1997	1998	1999
Milk	.51	.55	.56	.55
Ice cream	.64	.71	.72	.72
Frozen confections	.98	.91	1.13	1.00

1999 dairy prices by region, given in dollars

	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Milk	.62	.49	.49	.50	.56	.69	.71	.73	.55
Ice cream	.65	.55	.67	.63	.89	.71	.53	.67	1.18
Frozen confections	.75	1.03	.98	.79	1.00	2.25	.74	1.01	1.19

bar, page A-19.)

The survey did not measure how many operators utilized these new products, hence, their future impact on food prices was uncertain.

Large and extra large operators carried more fresh-prepared food than other operators, relying on fresh food for 70.3 and 64.3 percent of their food offerings, respectively, versus 33 and 21.6 percent of medium-size and small operators.

In contrast with other product segments, small operators, who were much less active in the food business, charged the highest prices for freshly-prepared food. This reflected lower-volume purchasing by this group.

As noted previously in this report, the larger operators used more dedicated, temperature-controlled vehicles for transporting cold and frozen food, which yielded major operating efficiencies. They also provided far more commercial versus consumer microwave ovens, enabling them to better serve their customers.

The impact of frozen machines on food sales has been difficult to determine since many, if not most, were used as ice cream merchandisers. Operators reported difficulty finding enough frozen food variety on a consistent basis to make frozen machines dedicated food merchandisers.

Got milk?

Milk sales increased in 1999, thanks in large measure to the introduction of resealable, plastic bottles, enabling operators to merchandise milk in cold drink machines. This was a new development, and the majority of milk continued to be vended through refrigerated food machines.

The increase in milk sales might not have been as large as indicated in the chart on page A-20 since these sales have traditionally been underreported. This is because many operators sold most of their milk in refrigerated food machines and reported

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CONSOLIDATED VENDORS CORP. BOOSTS ITS COFFEE SALES WITH THE NESCAFE BRANDED MERCHANDISER

Mike Kelner, president of Muskegan, Mich.-based Consolidated Vendors Corp. (CVC), isn't one to run away from a challenge. When he noticed his hot beverage sales slipping a few years ago, he took a careful look at what new ideas were available. Flavored coffee had revived some interest in the middle Nineties, but by 1999, that interest was waning. Kelner was impressed with the Nescafe branded machine. It was about time a manufacturer put some marketing muscle behind a branded coffee vending machine.

Kelner's company serves a lot of heavy manufacturing accounts where coffee is still an important refreshment. He was so impressed with the Nescafe machine's graphics that he actually used it to replace some fresh-brew machines. This was a bold move, given the industry's preference for fresh-brew coffee.

Kelner was skeptical about replacing fresh-brew machines with freeze-dried venders, but "when you had graphics on the machine, it was a success," he noted. CVC replaced about 60 fresh-brew machines with the Nescafe machine. The results, in his view, have been positive. Part of the reason was improved product quality. "The soluble products today are better than they were 10 to 15 years ago," he said.

The water-soluble machine is also appreciated by the route drivers, since it's easier to clean and fill than the fresh-brew machines, and there's less waste. Management appreciates the fact that profit margins are higher.

Kelner was encouraged to try a branded hot beverage machine after he saw what branding did for his OCS business. In 1998, he rolled out his own branded OCS program, Coffee Outfitters. He noticed OCS customers were more receptive to a high-quality branded coffee.

Vending operators must take advantage of as many profit opportunities as possible, Kelner noted, given the constant challenges they face on the bottom line. While cold beverages are currently growing fast with the 20-ounce bottles, Kelner is cognizant of the fact that profit margins are volatile. Coffee costs, on the other hand, are more predictable for the time being.



Mike Kelner has found a receptive audience for the Nescafe branded coffee machine in the industrial market his company serves.



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all sales through these machines as food sales.

The new milk containers gave operators the ability to place more dedicated milk machines in 1999, hence they gave more operators the chance to better track their milk sales.

Besides the traditional, closed front machines with limited selections, operators designated both bottle machines and can beverage machines as dedicated milk machines in 1999.

The new milk container resulted in large measure from a marketing initiative by the milk industry. In 1995, the Washington, D.C.-based International Association of Dairy Foods published recommendations for packaging improvements and increased product variety. One result was a new package design — an aseptic, gable-top, plastic, resealable bottle which maintains freshness and is easy to transport and store.

In addition, the dairy industry identified vending as an underdeveloped channel. This led to the development of bubble-front, multiple selection machines from U-Select-It Corp. with colorful graphics. These machines were not marketed aggressively, however, due to the lack of marketing support from dairy product suppliers.

New milk packaging and equipment was not widespread in 1999, indicating considerable opportunities for future growth. Like ice cream, milk has limited distribution. Most vendors continued to rely on local dairies for product.

The extra large vendors were the most active in the milk segment, the survey reported. Milk machines continued to be dominant in large industrial accounts and educational accounts.

Is it time for ice cream?

As noted in the discussion on food, frozen food merchandisers, a small but growing segment, largely functioned as ice cream machines in 1999. But unlike milk, machines

specifically built for ice cream continued to account for most vended ice cream sales.

Ice cream machines posted slight gains in 1999. The segment was largely viewed as a sales tool by most vending operators. As has long been the case, much of the ice cream business was subcontracted to ice cream vending specialists, whose sales were not included in this report.

Operators largely viewed ice cream machines as niche applications, for recreational, educational and large b&i sites.

Like milk, the ice cream category was stymied by a lack of marketing push from product manufacturers. Operators also depended entirely on local sources for product.

Cafeterias: a growth that wasn't

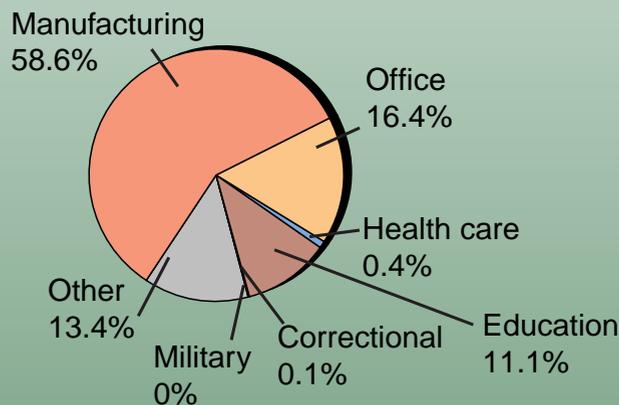
Manual foodservice would have posted bigger gains in 1999 if opera-

tors could have found the necessary help. The surge in automotive production sent manufacturing plants into overtime, according to operators serving regions with a lot of auto-related business. These operators reported a sharply renewed willingness to subsidize feeding operations in 1999.

As it happened, foodservice sales didn't keep pace with vending in 1999, and fell as a percentage of total sales. Operators active in foodservice reported stiffer competition from mobile caterers and quick-serve restaurants (QSRs). The QSRs in particular advertised takeout meals more aggressively.

In reaction to the heightened demand for foodservice, medium-size operators reported an unprecedented level of involvement in manual feeding in 1999; 30 percent of the medium-size firms offered some form of manual feeding, the highest

1999 foodservice customer locations



Type of manual foodservice provided in 1999

Full-service cafeteria	51%
Catering	68
Speedline	45
Special events	44
Deli/soup/salad	31
Scramble system	16
Other	6
More than one of above	89

in many years.

Extra large operators, by contrast, were less involved for the second year in a row. One reason was that many of the larger operators found it more advantageous to partner with dedicated foodservice specialists.

Aside from saving themselves the investment required to provide state-of-the-art foodservice, these operators protected their vending businesses from competition from foodservice companies. Some operators reported securing accounts they could not have won any other way.

Vending operators weren't alone in facing difficulty responding to the labor challenge in 1999. According to the National Restaurant Association, "noncommercial restaurant services" reported a measly 0.8 percentage point increase in sales in 1999, well below the total restaurant industry's 5.4 points.

The cost of operations in 1999

soared nearly 100 percent in some regions. Wholesale product costs began to rise in 2000 after remaining flat for three years. In addition, higher labor costs have shown no signs of letting up.

One of the biggest costs operators face in 2000 is retrofitting bill changers and validators to accept the new five- and 10-dollar bills. Most newer equipment requires new microprocessor chips in the circuit board. Older units need to have circuit boards replaced.

In addition, the low interest rates that all capital-intensive

Computer use in 1999

(The following applies to the 70 percent of operators who reported using computers.)

General accounting	89%
Route management	53
Inventory control	52
Commissary management	13
Fleet/equipment maintenance	17
Food forecasting	7
Other	6
Use handhelds	14

Uses of the Internet:

Do not use the Internet	38%
Purchasing product or equipment	33
Operate a website	17
Marketing services to customers	15
One or more of the above	53

Use the Internet

	Small	Medium	Large	Extra Large
Purchasing	34%	31%	29%	36%
Marketing	13	17	24	32
Have website	9	25	41	49
One or more	50	50	82	86

was such that late requests for manual feeding could not be met.

Operators experienced in manual foodservice were quick to point out that the subsidies will disappear as soon as the volatile automobile market loses momentum.

Manufacturing concerns continued to account for most cafeteria customers in 1999.

2000: a millennial challenge

Fiscal 2000 promises to be more challenging to automatic merchandisers than 1999 for several reasons.

The biggest obstacle is rising operating costs. Fuel prices have

businesses have enjoyed for the last few years have given way to higher rates. This will make investment in new equipment costlier.

While most operators interviewed in mid 2000 felt the economy continued to expand, government sources indicated the economy is expected to cool. Consumer spending is expected to register a 3.1-point gain in 2000 compared to a 5-point gain in 1999.

Inflation is also expected to increase, which vending operators regard with mixed emotions. On one hand, cost increases hurt profits. On the other hand, when prices rise in

other retail channels, operators find it easier to raise their own prices. Hence, 2000 could be the year for some long-awaited price increases.

Whether or not the new Sacagewea dollar coin will bring the benefits the industry has hoped for remains to be seen. As of early July, most operators were unable to secure supplies of the new coins from their banks. As the coins become available, vendors stand to see higher sales, based on the experiences of operators who promoted dollar coins. The Mint has advertised the new coin aggressively, and consumer surveys have indicated most people are more inclined to use the coins rather than bills in vending machines.

Long-term trends specific to the automatic merchandising industry will continue. Small locations will keep increasing, as will operating costs and competitive pressures. These changes will continue to support increased market dominance by the larger operators. AM

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