



Economy slows, forcing vendors to face a more competitive climate

BY ELLIOT MARAS, EDITOR

Two thousand, the end of a century and a millennium, was a year for change. As the last year of a two-term presidency, it brought a changing of the guard in the nation's government, which typically impacts consumer confidence, fiscal policy and the economy. All of which it did.

And as heavy manufacturing continues to give way to a service-based economy, 2000 also ushered in the expectations of a more technology-savvy consumer. This brings a higher level of comfort with technology on one hand, and expectations of better performance from service providers on the other.

Top line results in 2000 indicated the automatic merchandising industry once again reflected the nation's economic performance. Revenues increased by

4.8 percentage points, almost matching the prior year's 4.9-point gain. In 2000, automatic merchandising revenue reached \$25.62 billion, according to the 24th *Automatic Merchandiser* State of the Vending Industry Report. But while the growth rate nearly matched 1999's, 2000 witnessed a shifting business environment. The eight-year economic boom that began in 1992 came to an end in the second half of 2000,

as the industry is now well aware.

Most vending operators experienced the effects of location downsizing in the third and fourth quarters of 2000. Employer layoffs snagged the momentum that had carried over from 1999 and started 2000 off with a bang. Customer downsizing continued in 2001.

tors (\$1 million and less in sales).

This marked a change from the prior year, when the extra-large firms posted a 4.0-point gain and the small firms a 4.34-point loss on a per-account basis. (See chart on page A8.)

Pricing did not provide operators much relief, as prices in most categories remained flat in 2000.

2000 Industry Total: \$25.62 billion

(1999 Total: \$24.45 billion)

Participants by Region:

Region	Operators
New England	4%
Middle Atlantic	16
East North Central	18
West North Central	6
South Atlantic	22
East South Central	5
West South Central	11
Mountain	8
Pacific	11



The impact of the downsizing hurt the extra-large firms (\$10 million and more in sales) the most. These companies posted an 8.9 percentage-point drop in revenues on a per-account basis in a two-year period. These companies made up for the loss by adding more accounts with fewer people, a trend that trickled down to operators of all sizes.

Revenue per account dropped for all size companies except small opera-

Upsizing continued in the cold drink and candy/snack/confection segments, but it was hardly enough to offset the effects of location downsizing.

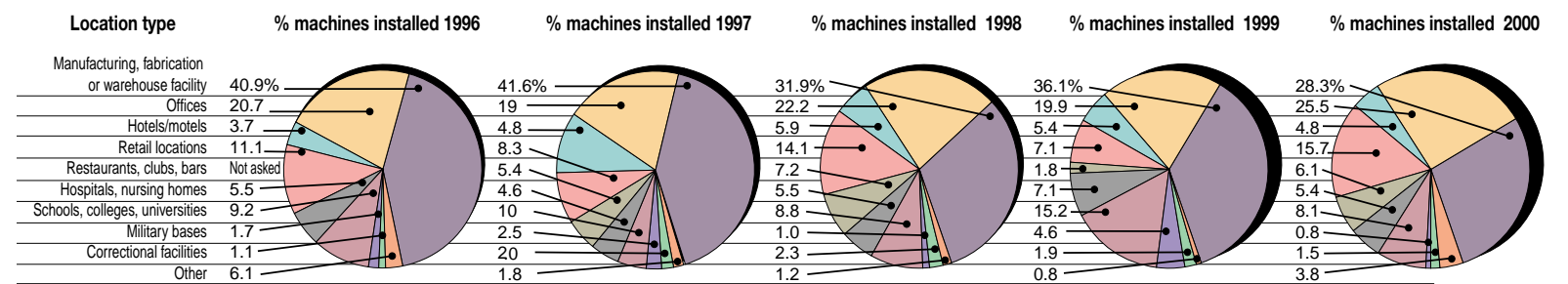
While vendors have benefited from low inflation in product costs, higher inflation would have made it easier to implement long-sought price increases. Inflation, as indicated by the Consumer Price Index, rose 3.3 percentage points in 2000, the biggest gain since the early 1990s, but only a

Operator sales

Size	Revenue range	% of 2000 operators	Projected 2000 sales	% of 2000 sales	Projected 1999 sales	% of 1999 sales
Small	under \$1 million	75%	\$1.415 billion	5.8%	\$1.35 billion	5.8%
Medium	\$1 M - \$4.9 M	18	3.78	15.5	4.02	17.3
Large	\$5 M - \$9.9 M	4	2.8	11.5	2.7	11.6
Extra large	\$10 M +	3	16.4	67.2	15.21	65.4
Total			\$24.4 billion*		\$23.28 billion*	

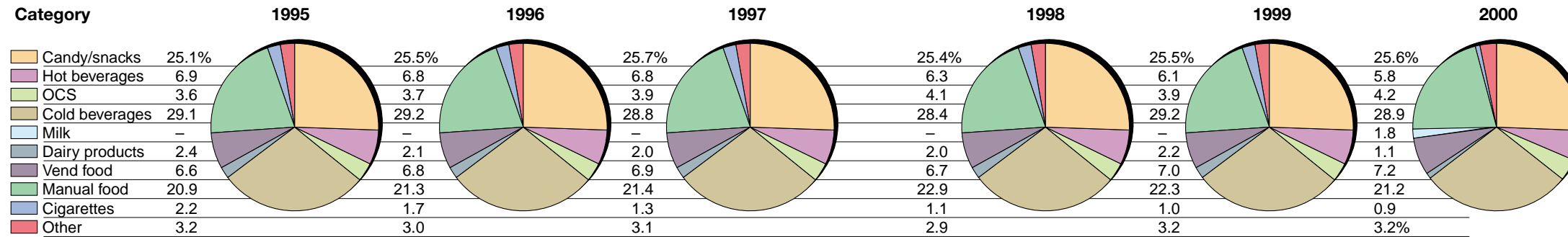
* Does not include 5 percent of total revenue for in-house and self-operated machines.

Machines installed by location type — five-year trend



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

Operator sales by product category, six-year trend



Projected 2000 sales by category

Category	2000 sales
Candy/snacks	\$6.56B
Hot beverages	\$1.49B
OCS	\$1.08B*
Cold beverages	\$7.4B
Milk	\$461.2M
Ice cream	\$281.8M
Vend food	\$1.85B
Manual foodservice	\$5.43B
Cigarettes	\$230.6M
Other	\$819.8M

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

few tenths of a percent more than in any of the past four years.

Vendors had to increase the number of locations to maintain revenues. This proved difficult since the economy produced fewer profitable locations.

While product costs rose only slightly in 2000, expenses jumped in other areas, namely gasoline and employee benefits. Equipment expenditures also spiked in 2000 on account of new currency. Vendors had to upgrade bill changers and validators to accept new \$5 and \$10 bill designs. The number of bill changers updated to accept new currency jumped from 8.2 percent in 1999 to 17.8 percent in 2000 while the number of validators updated rose from 11.4 percent to 17.7 percent.

Coin mechs did not have to be

updated to accept the new dollar coin, but most machines did not pay dollar coins. In conjunction with the bill currency updates, some operators found it made sense to upgrade their coin mechs to pay dollar coins. But despite the much-publicized introduction of the Sacagewea dollar coin, the survey reported only 5 percent of bill validators paid out dollar coins in 2000.

Besides the expense posed by new currency, vendors also continued to confront the ongoing need to invest in new equipment and technology. Newer products, such as frozen food and 20-ounce bottles, required more modern, higher cost equipment.

On the technology front, competition has forced operators to explore more advanced software, electronic data retrieval and the Internet.

For the first time in several years, the percentage of vendors using handheld computers increased, from 14 percent in 1999 to 21 percent in 2000.

Internet use increased slightly in 2000. While the same percentage reported using the Internet as in 1999 (62 percent), slightly more indicated using it for more than one purpose (59 percent in 2000 versus 53 percent in 1999).

Changes in workplace demographics — such as fewer large locations, less structured work schedules and more diverse consumer tastes — called for higher quality customer service, better-trained staff and more aggressive marketing. All of which translated into higher capital investment.

In 2000, rising overhead costs once again favored the larger play-

ers. As noted in last year's report, the extra-large companies (those with more than \$10 million in sales) grabbed a larger piece of the automatic merchandising pie in 2000.

For the second consecutive year, the report showed the extra-large firms grew market share while large and medium-size firms lost share. As reported on page A-4., extra-large firms increased their market share of total industry sales from 65.4 to 67.2 percent, and were the only group to gain market share.

The bigger operating firms continued to offer a wider scope of services in 2000.

Canteen Vending Services Inc., the industry's largest player, continued to sign more franchise agreements in 2000. The growing number of franchise agreements verified the

Purchasing sources

Source	% expenditures from this source					
	1995	1996	1997	1998	1999	2000
Vend/OCS distributors	29.0%	28.2%	28.7%	34.9%	42.7%	37.9%
Foodservice distributors	23.0	23.6	24.4	15.6	20.7	17.7
Warehouse clubs	9.0	2.8	5.1	3.2	2.1	2.3
Manufacturer direct	11.8	15.5	12.6	14.9	9.7	8.7
Beverage bottlers	18.4	28.8	25.8	29.5	23.6	30.6
Outside commissaries	3.2	0.9	1.4	1.1	0.7	2.6
Other	5.6	0.2	2.4	0.8	0.3	0.2

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

benefits afforded by being affiliated with a major size operation. These included more comprehensive training programs, a broader employee benefits package, more professional marketing, the use of some exclusive national name brand products, and

lower purchasing costs. (See article on page A23.)

The largest acquisition reported in 2000 was Canteen's of Marietta, Ga.-based Sands & Co., a major regional player. Muskegon, Mich.-based Consolidated Vendors Corp.,

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
1997	8.7	69,600
1998	9.7	77,600
1999	11.3	89,600
2000	11.5	90,500

Number of accounts served

1997	227.0	1,816,000
1998	241.0	1,928,000
1999	272.4	2,170,000
2000	281.0	2,200,400

Number of employees

1997	39.3	314,000
1998	43.5	348,000
1999	47.1	377,100
2000	48.0	380,000

Wilmington, Mass.-based USRefresh and Brockton, Mass.-based All Seasons Services Inc. also continued to acquire operations.

Larger companies reported the following unique traits in 2000 compared to small and medium size firms.

- They used more handheld computers than medium-size and smaller firms.
- They used the Internet more.
- They used planograms more for candy/snack/confection selections.
- They updated more bill changers and validators to accept new currency.
- They relied more on commercial

grade microwave ovens as opposed to consumer models.

- They sold a higher percentage of bottled cold drinks, which netted higher price points than cans or cups, than medium and smaller firms.
- They sold more large size snacks as a percentage of sales, which netted higher price points than regular size snacks.
- They charged more for milk.
- They sold higher percentages of pastries, the highest ticket product in the candy/snack/confection segment, compared to medium-size and small operators.
- They charged more for candy

Number of bill changers

Year	% operators involved	Total
1998	86.0%	502,240
1999	85.0	598,230
2000	80.0	513,000

bars, regular size snacks, large size snacks, and meat snacks.

- They sold more fresh food.

The survey indicated a decrease in the percentage of operators owning hot beverage machines and food machines, although the total number of these machines grew. A logical explanation for this seeming contradiction was that operator consolidation placed more of these machines in the hands of fewer operators. Consolidation reached record levels in both 1999 and 2000. (See chart on page A8.)

OCS showed the most improvement in 2000, posting a double-digit gain, following a weak 1999. Fiscal 2000 was the year the vending industry caught up with other coffee channels and cashed in on OCS specialty coffee. This supported trends reported in the *Automatic Merchandiser* Coffee Service Market Report, published in November 2000.

Milk and ice cream also represented bright spots in 2000. This year the survey asked more questions about these small but growing areas than in previous years. While larger operators were more active in the milk business than smaller ones, operators of all sizes increased milk and ice cream sales.

About the report

The *Automatic Merchandiser* State of the Vending Industry Report is based on questionnaires completed by a random sampling of 1,833 *Automatic Merchandiser* readers. The survey generated a 22 percent response.

Survey participants were limited to full-line, candy/snack and self-operated vending businesses 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-

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 U.S., along with data from the government, product suppliers and equipment suppliers. 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 business locations 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.

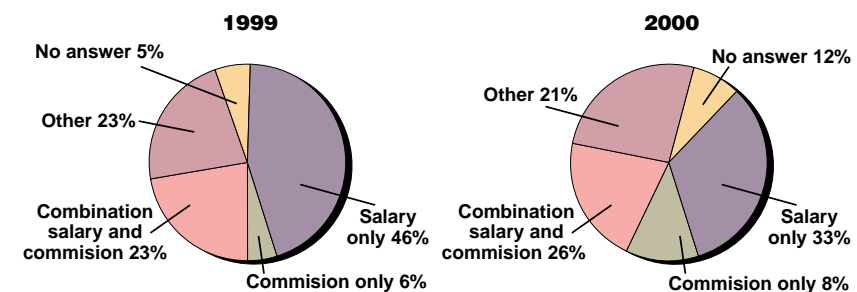
Vending trails foodservice

While 2000 witnessed better than average sales growth based on the last 20 years, the automatic merchandising industry did not match the performance of the overall foodservice industry.

The U.S. foodservice industry posted a 5.6 percent-age-point revenue gain according to the National Restaurant Association (NRA) in 2000, slightly surpassing the 5.4-point gain reported for 1999. This indicated that automatic merchandising has not adapted to consumer lifestyle changes as quickly as some of its competitor industries.

Full-service restaurants once again posted the fastest one-year sales growth rate at 7.1 percentage points in 2000, exceeding the 6.7-point gain reported for 1999. According to the NRA, full-service restaurants recognized the opportunity created by higher levels of disposable consumer income and upgraded their design and décor.

How drivers are compensated



Acquisition activity — four-year trend

	1997	1998	1999	2000
% operations that acquired other operations	13%	13%	16%	16%
% operations that sold some part of operation	7	6	6	6
% that did both of the above	7	9	6	9
% that did neither	72	71	69	68
No answer	1	1	2	0

Other types of vending-related revenue reported

Type	% operators involved					
	1995	1996	1997	1998	1999	2000
Bottled water	6%	21%	25%	32%	33%	38%
Sundries/toiletries	5	17	11	14	14	13
Games	12	13	12	11	13	10
Music	7	11	10	9	9	7
Bulk vending	4	8	12	12	15	17
Kiddie rides	0	3	4	4	3	3
Cooperative service vending	2	5	4	3	3	3
Condoms	1	5	3	4	5	5

Other foodservice industry researchers pointed to full-service restaurants' expansion into the take-out market as a key factor in their superior performance.

Limited service (fast food) restaurants, by contrast, posted a 4.5 percent gain in 2000, a drop from the 4.9 percent reported for 1999. The superior performance of full-service establishments indicated consumers' willingness to pay more for higher quality.

In its Quickservice

Outlook, the NRA also cited growing competition for convenience dining dollars among fast food restaurants, supermarket foodservice and convenience stores.

The consumers' tendency to eat on the run has been cited as the

Average revenue per account

	% change 1998 to 1999	% change 1999 to 2000
Small firms	-4.34%	+1.0%
Medium-size firms	-6.9	-4.0
Large firms	-5.9	-2.48
Extra-large firms	+4.0	-4.9

biggest factor affecting the foodservice industry at the dawn of the new millennium. The automatic merchandising industry's slowness to address this challenge most likely accounted for its substandard growth rate in comparison to other foodservice channels during the boom years of the late 1990s.

Continued market dominance by larger players capable of investing in new technology indicated change will come, however. Technological developments continued to emerge in 2000 designed to enhance the automatic merchandising industry's ability to adapt to new customer expectations.

Technology evolves

Developments on the technology front in 2000 included:

- Growing use of DEX-capable handheld computers. DEX handhelds enabled operators to access machine-level data faster and more accurately than traditional manual methods. It also shortened the amount of time a driver needs to become competent. In addition, it enabled operators to utilize category management, a process that bases product selection on historical consumption data.
- More telemetry-based solutions were introduced. These network-based systems enabled machine activity to be monitored from a remote location in real time, thereby improving customer service. By working with vendors on a test basis, providers of these systems reported progress in making them cost justifiable for operators.
- More use of networks for internal communications technology (LANs and WANs), thereby strengthening service capabilities.
- Online product ordering. Vendors active in manual foodservice were able to shop for foodservice suppliers online. Vendors of all sizes were able to access vending equipment aftermarket catalogs and

place orders online.

In addition to these developments, three equipment manufacturers either acquired or invested in vending software providers in 2000. The manufacturers hope to develop equipment with better reporting capabilities.

- Dixie Narco Inc., a subsidiary of Maytag, invested in e.Vend.net Corp., which provides telemetry-based remote monitoring services. (The company has since been renamed Stitch Networks.)
- Crane Merchandising Systems acquired Streamware Corp., a vending software provider that has also been involved generating vend product market data.
- MEI acquired Rutherford & Associates Inc., a vending software provider.

More suppliers consolidate

Still another development that emerged in 2000 that will affect the automatic merchandising industry's competitive position was consolidation among product supplier companies. Several product manufacturers serving the industry merged, creating players with larger resources that have the potential to benefit automatic merchandising.

Vendors were quick to notice the downside of supplier consolidations: fewer companies to shop often results in higher product prices and fewer product choices. Some operators, however, noticed that larger manufacturers provided more marketing support. In recent years, product manufacturers have introduced new operating methods such as category management and more vend-specific packaging and programs.

In 2000, a record number of supplier consolidations were announced:

- Philip Morris, owner of Kraft Foods Inc., agreed to purchase Nabisco Holdings Corp.
- Hershey Foods Corp. agreed to acquire Nabisco's intense mints,

breath freshener mints and gum business.

- Superior Coffee, now known as Sara Lee Coffee & Tea, acquired Hills Brothers, MJB and Chase & Sanborn coffees from Nestlé Foodservice Co.
- Kellogg Co. agreed to buy Keebler Co.
- Keebler Co. agreed to acquire Austin Quality Foods Inc.
- ConAgra announced plans to buy International Home Foods Inc.
- General Mills Inc. agreed to merge with Pillsbury.
- Pepsico Inc. announced plans to buy Quaker Oats Co., which owns Gatorade, and South Beach Beverage Co., which owns the SoBe line of herb-spiked fruit, energy and tea drinks.

Economy weakens in 2000

A key characteristic of the eight-year period of economic growth, as noted in last year's *Automatic Merchandiser* State of the Vending Industry Report, was the regional uniformity of the nation's economic performance. Regional variances in economic strength diminished because the economy became more diverse and was less dependent on traditional industries.

As the economy weakened in the second half of 2000, slower sales became evident in all regions, as technology- and Internet-related industries, which fueled much of the 1990s' growth, were among the industries that suffered the most.

Vendors serving a lot of "dot-com" type companies overwhelmingly reported a fall-off in sales as these accounts laid people off and in some cases closed completely.

The crash of technology-related stocks in 2000 did more than dampen investor income. It hurt consumer purchasing because it affected consumer confidence.

It should be noted, however, that the slowdown was not as severe as in past recessions, according to the

Conference Board, a Washington, D.C.-based organization that studies economic trends.

One benefit the layoffs brought to business was an easing of the labor market, the bane of the 1990s' prosperity. Vendors reported better response to help wanted ads in the third and fourth quarters of 2000, although the competition for good workers remained fierce.

While much of the Internet-related economy suffered in 2000, the financial services sector fared surprisingly well, despite declining stock values. The Conference Board reported that financial service employment continued to expand, which benefited the Mid-Atlantic region where much of the financial services sector is based.

The technology slump hurt employment in the West South Central region, where personal computer manufacturers, telecommunications suppliers and semiconductor makers suffered weaker demand. However, the region benefited from higher oil prices, as rig counts grew. This region also benefited from vibrant export sales to Mexico.

The "dotcom" crash dealt a specific blow to the Pacific region, which prospered during most of the Nineties. Consumer confidence was further hurt there by well-publicized problems with electrical energy supply.

Energy issues notwithstanding, operators in the Pacific region had the highest percentage of validators with dollar coin payout in 2000, and updated the most validators to accept new dollar bill currency.

Weakness in the automotive sector affected the automatic merchandising industry. While the vending industry depended less on automotive manufacturing than it once did, this industry remained its single largest customer segment.

The East North Central and East South Central regions, home to most automotive plants, experienced significant setbacks in productivity in

2000. Automotive production in the U.S. grew only 2.65 percentage points in 2000, compared to 8.73 points in 1999, according to the Detroit-based Automotive News Data Center.

The East North Central region was also hurt by declining demand in steel production, which was hurt by foreign competition.

The East South Central and East North Central regions nonetheless claimed the most large locations in 2000.

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

Cold drinks: bottles still grow

For the fifth consecutive year, bottles led the industry's revenue growth, a development that favored the larger operators over the smaller ones. Bottles as a percent of total cold drink sales grew from 27.2 to 31.4 percent in 2000.

While the growth in bottle sales slowed compared to the previous four years, keep in mind that the base business in this category was significantly larger in 1999 than it was in the earlier three years. A growing business usually grows faster from a smaller base.

Bottle sales continued to increase at the expense of cans as a percentage of sales. However, the 4-year decline in dedicated can machines as a percentage of machines ended in 2000, when this machine group actually reported a slight comeback. This reflected two things: 1) The increase in bottles has been incremental, not cannibalistic, and 2) A large number of vendors preferred the can business to the bottle business.

Success with the higher ticket 16- and 20-ounce bottles required more stock keeping units (SKUs) and dedicated cold beverage routes. Hence, the bottle business required a higher capital investment which many operators, particularly smaller ones, were reluctant to make

In 2000, more operators opted to use combination bottle/can machines than dedicated bottle machines, as reported in the chart on page A11. The percentage of bottle-capable machines (dedicated bottle venders plus combination can/bottle machines) collectively posted a slight gain in 2000.

The survey reported that more vendors raised prices for bottle drinks in 2000 than they did in 1999. Can prices, by contrast, did not change much in the last five-year period. The survey further noted that while larger operators charged more for bottle drinks, can prices were similar for all size operations.

Fiscal 2000 marked the third consecutive year that cold beverage bottlers — which supply most product to the vending industry — aggressively purchased bottle-capable machines, many of which they loaned to vendors. The big syrup producers, seeing the opportunity to expand sales through vending, supported these equipment purchases with incentives to bottlers, beginning in 1997.

Machine manufacturers reported a fall-off in machine orders at the end of 2000, which will likely impact vender placement growth in 2001.

In the meantime, many vendors noted the bottlers became more generous in their terms for loaning bottle-capable machines in 2000. The bottlers were less generous in their bottle pricing, however.

With competition limiting their ability to raise prices, vendors continued to experience lower profit margins on bottles compared to cans, even though the price points and gross margins were higher.

The situation was different with cans. Most bottlers offered vendors less generous terms for can machines. A handful of vendors interviewed believed the presence of the higher-priced bottles helped their can business because it lowered consumer resistance to can price increases.

Cold beverages

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
2000	238	1,650,300

(Editor's note: These totals do not include bottler-owned machines loaned to vending operations, or machines placed by bottlers that don't have separate vending organizations.)

Cold beverage machines by type — five-year trend

Machine type	% of total					Projected total				
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000
Can	86.7%	81.4%	78.1%	68.8%	69.7%	1,115,907	1,119,901	1,162,003	1,111,894	1,155,200
Bottle	2.3	6.3	7.2	18.5	12.8	29,603	86,675	107,124	298,553	213,400
Cup	3.5	3.5	4.1	2.6	2.7	45,048	48,153	61,001	41,958	44,600
Dedicated										
can juice	4.9	4.9	5.2	5.7	4.6	63,067	67,414	77,368	91,986	77,000
Combination										
bottle/can	2.3	3.3	5	3.4	9.6	29,603	45,401	74,392	54,869	158,400
Other	0.2	0.1	0.4	0.9	0.6	2,574	1,376	5,952	14,524	1,700

Cold beverage sales — five-year trend

Beverage type	% of sales					Projected total				
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000
Can drinks	80.8%	79.9%	75.5%	67.7%	62.8%	\$4.96B	\$5.08B	\$4.8B	\$4.82B	\$4.65B
Bottle drinks	6.8	13	18.5	27.2	31.5	417.5M	826.8M	1.17B	1.94B	2.33 B
Cup drinks	5.8	5.8	5.2	4.9	4.9	356.1M	368.9M	331M	348.1M	362.6 M
Other	6.6	1.3	0.8	0.3	0.8	18.4M	82.7M	51M	2.1M	59.2 M

Average cold beverage prices — five-year trend

Beverage type	1996	1997	1998	1999	2000
Can beverage	58 cents	58 cents	59 cents	57 cents	59 cents
Bottle beverage	89	90	90	93	98
Cup beverage	59	51	49	47	49

Can drinks maintain popularity

Vendors also reported that certain customer segments remained loyal to cans, particularly older consumers and women.

Fiscal 2000 witnessed an increase in the availability of cold drink glassfront machines. Coca-Cola Co. sanctioned its first glassfront machine in the fourth quarter of 2000, which many vendors saw as a sign of technical progress.

Glassfronts promise to do for the cold beverage business what they did for the candy/snack business, but from their inception, they have been hampered by high price points and technical issues.

While tests have shown that glassfronts increase sales, many vendors were reluctant to purchase them because of the high costs. In addition to the machine cost, the larger capacity glass-

fronts required higher product inventory costs.

Vendors noted that more product variety is needed to merchandise glassfront machines effectively.

Juice venders: up and down

Dedicated can juice machines dropped in 2000 following a lift in 1999, continuing an up-and-down pattern reflective of juice manufacturers' changing marketing strategies.

Competition among juice companies and from sports and water beverages renewed some juice companies' interests in dedicated machine initiatives in recent years. Conversely, juice makers also discovered that many vendors preferred price discounts over dedicated machines that limit their product choices.

While the number of dedicated can machines has edged up and down over the last five years, the category as a whole has been smaller than it was before the PET revolution. The noncarb category as a whole — waters, sports drinks, ready-to-drink teas — has evolved primarily in PET bottles. Some industry observers believe it was the noncarbs that popularized the plastic bottles in the first place.

The survey did not measure the number of dedicated noncarb venders, which operators see as a growing category. Most dedicated noncarb machines were included in the bottle and combination bottle/can numbers listed on page A11.

Vendors found both can juice and dedicated noncarb machines helpful in winning educational accounts from beverage bottlers.

Cup machines bottom out

The decline in cold cup machines, a decade-long trend, leveled off in 2000. Sales through this highly profitable venue posted an increase. This reflected the growing market presence of larger operating companies, which have the financial resources to maintain the capital- and service-intensive units.

Vendors credited the growth in noncarbs to changing customer tastes. Their perception was supported by data from the New York City-based Beverage Marketing Corp., which tracks cold beverage trends.

Noncarbs lead beverage growth

According to BMC, carbonated soft drink sales posted their second soft year in 2000, while bottled water and

sports drinks grew by 8.3 and 6.4 percentage points, respectively. Fruit-based drinks experienced their second consecutive slight gain, while ready-to-drink tea lost 1.7 points.

The *Automatic Merchandiser* State of the Vending Industry Report did not track sales by beverage product type. However, vendors interviewed agreed that bottled water continued to post significant gains in 2000.

Sports drinks, a smaller category, were once again buoyed by an aggressive dedicated Gatorade machine program in 2000.

Milk, which historically has vended in refrigerated food machines and dedicated milk venders, also found a place in bottle beverage machines in 2000. The introduction of milk in cold drink machines continued a movement first reported in 1999, when a handful of processors introduced milk in single-serve, resealable plastic bottles.

Only a small portion of milk sold in 2000 — 4.3 percent — was in machines with other cold drinks.

The BMC reported that milk volume posted its second consecutive increase in 2000, following years of decline.

Candy/snacks hold steady

Candy, snacks and confections, one of the most profitable product segments and the largest next to cold beverages, held its own in 2000, but did not grow significantly. Such has been the case for several years as vendors reported no stellar product intros since Famous Amos in the early 1990s.

Within the candy/snack/confection segment, bagged chips, for the first time, became the largest product group, edging out candy bars. Bagged chips outpaced other product groups in dollar growth for the fourth straight year. This mainly reflected the shift to larger-size salty snacks, a trend manufacturers have driven with favorable pricing.

Bagged chips commanded 31.6 percent of the category in 2000, a 3.1-percentage-point gain over 1999.

LSS: a tenth of all bagged chips

For the first time, the *Automatic Merchandiser* State of the Vending Industry Report separated larger size from regular size bagged chips, revealing that LSS represented one-tenth of bag chip sales.

As noted last year, the report indicated the shift to LSS has slowed. In 2000, about 60 percent of respondents reported using the same amount of LSS as the prior year, while 17 percent reported using less and 12 percent indicated using more.

For the last two years, the survey has reported that larger operators exerted more control over product selection. In keeping with this finding, larger operators also made more use of planograms in 2000.

The report indicated attempts by candy bar manufacturers to build sales by offering upsized products did not pan out. Candy bar prices remained flat for the third straight year.

Candy bars flat

While candy bars did regain some market share in 1998 and 1999 following losses caused by manufacturer price increases in the mid-1990s, progress in this segment did not continue in 2000.

In addition to introducing some larger size products, candy manufacturers presented some line extensions in 1999 and 2000. But operators, rather than adding these products at the expense of a non-candy item, simply used them in place of the established candy products, on a rotational basis.

Similarly, gains posted by bagged/boxed candy in 1999 tapered off in 2000. Bags of individually wrapped candy pieces proved popular in many white collar and metropolitan locations in recent years. Candy manufacturers, howev-

Candy/snacks/confections

Candy/snack/confection machines

Year	Projected total
1997	1,367,511
1998	1,512,775
1999	1,676,900
2000	1,695,400

2000 snack machines by type

Machine type	% of total	Projected total
Glassfront	85%	1,441,090
Columnar candy/pastry	4	67,816
Honor boxes	9	152,586
Other*	2	33,908

*Includes tabletop and combination machines

Candy/snack revenues — five-year trend

Category	% of total					Projected total				
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000
Candy bars	27.9%	27.7%	30.2%	30.9%	26.2%	\$1.5B	\$1.58B	\$1.79B	\$1.92B	\$1.72B
Bagged/boxed candy	3.3	2.8	3.3	6.8	4.6	176.8M	158.7M	195.4M	422M	301.7M
Gum/mints	4.8	4.4	5.7	4.2	4.1	257.3M	249.5M	337.4M	260.7M	269M
Bagged chips	27.3	26.6	27.8	28.5	31.6	1.46B	1.5B	1.64B	1.77B	2.07B
Bagged crackers	2.3	2.4	1.7	3.1	1.6	123.3M	136M	100.6M	192.4M	105M
Cracker sandwiches	7	8.7	5.9	4.0	4.5	375.2M	493.3M	349.3M	248.3M	295.2M
Bagged/jumbo cookies	6.8	5.4	7.6	5.0	6.3	364.5M	306.2M	500M	310.3M	413.3M
Pastries	14.1	15.7	12.6	12.7	15	755.7M	890.2M	746M	788.3M	985M
Nuts	1.9	2.4	2.2	1.4	2.3	101.8M	136M	130.2M	86.9M	150.9M
Microwave popcorn	2.3	2	2.1	1.8	2.2	123.3M	113.4M	124.3M	111.7M	144.3M
Meat snacks	NA	-	-	-	0.9	NA	-	-	-	59M
Other	1.9	2.2	1	1.6	0.7	101.8M	124.7M	5.92M	99.3M	46M

Average price points — five-year trend

	1996	1997	1998	1999	2000
Candy bar	57 cents	57 cents	58 cents	58 cents	59 cents
Bagged/boxed candy	59	59	62	65	65
Gum/mints	43	43	42	43	44
Bagged chips	49	49	50	51	48 RSS, 70 LSS
Bagged crackers	52	51	54	53	54
Cracker sandwiches	50	49	52	51	49
Bagged/jumbo cookies	59	58	60	63	62
Pastries	66	66	69	71	70
Nuts	53	51	53	54	55
Microwave popcorn	66	63	64	66	67
Meat snacks	NA	-	-	-	59

er, have not matched their salty snack counterparts' fast pace of product introductions.

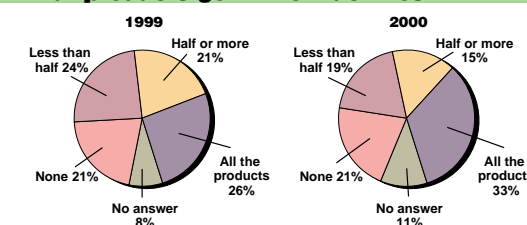
The placement of dedicated, temperature-controlled, branded candy machines did not grow significantly in 2000.

Pastries, cookies show gains

The report indicated some market share gain for both cookies and pastries, partly on account of slightly higher pricing.

CONTINUED

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



ROUTE MANAGER WANTS TO SEE CAN DRINKS FOR AS LONG AS POSSIBLE

If the 2001 State of the Vending Industry Report indicated a slight comeback for can machines in the last year, Darrell Tharp, a route manager at Kenoza Vending Co. Inc., based in Merrimac, Mass., isn't surprised. As popular as bottles are with consumers, consumers still buy cans if given no other choice.

In Greater Boston, manufacturing continues to play a big role. Tharp has noticed that cans are much more practical in locations with limited break time.

Since most of the locations Kenoza Vending serves are captive, the company is less affected by consumer trends than vendors serving non-captive locations. If Kenoza Vending offered the employees a choice, Tharp wouldn't be surprised if a lot did buy bottles. But he doesn't think he's losing sales because he isn't providing bottles.

The most challenging locations for Tharp are those where a manual cafeteria sells bottle drinks. In these locations, he suspects that he does lose some cold drink sales. But at the same time, the manual feeding operation always cannibalizes the vending machine to some extent.

While much of the industry's customer base is moving away from traditional, captive manufacturing sites, the blue collar customer remains the industry's backbone.

While Kenoza Vending periodically surveys its customers for product preferences, Tharp noted the majority of them are satisfied with the cold beverage program, which is fine with the drivers who find cans a lot easier to work with.

"You can definitely store a lot more cans in a smaller area, both in the warehouse and on the truck," he noted.

Still another benefit Tharp has noticed is that focusing on cans takes him out of the price war with bottlers. Bottlers in his region have pretty much gotten out of can vending, alleviating pricing pressure he would otherwise face.



Darrell Tharp of Kenoza Vending Co., Merrimac, Mass., thinks it makes sense to stick with can machines in captive locations.

The gain in the pastry sales did not reflect higher sales of existing products as much as the inclusion of more shelf stable products such as toaster pastries.

The more traditional pastries did gain a few market share points in 1997 after a handful of manufacturers leveraged some marketing dollars in the vending channel, beginning in 1995. Since then, however, traditional pastries have suffered a lack of product introductions on a

national scale.

Traditional pastries also suffered from the decline in blue collar customers, which consume more pastries than their white collar counterparts. Vendors historically capitalized on this preference by placing dedicated pastry machines in blue collar locations. Dedicated pastry machines have declined in the last two decades.

Pastries, it should be noted, have more regional and local providers

than other categories within the candy/snack/confection segment. Hence, pastry sales oftentimes reflected the presence of strong regional and local brands.

Bagged crackers lost a few market share points in 2000, while cracker sandwiches were flat, following about a 2.0-point drop in 1999. These categories suffered for two reasons: 1) Neither category has upsized, and 2) Both products have catered primarily to blue collar locations, which have downsized. In addition, vendors did not raise prices in either category.

Nuts, on the other hand, rebounded following a 0.8-point dip in 1999 and slightly surpassed its 1998 market share. The category benefited from some aggressive manufacturer marketing in 2000.

Nuts also benefited from consumer perception as a nutritious snack. While vendors have reported less interest in healthy snacks in recent years, market research has indicated that consumers choose nutritious products when given the option if all other considerations (price, taste, etc.) are equal.

Nuts were among several product categories not led by the larger operators. In addition to nuts, small operators claimed a higher percentage of sales for candy bars, bagged/boxed candy, gum and mints, regular size salty snacks, and meat snacks.

Hot beverages flat again

Hot beverages delivered another substandard performance in 2000, as coffee lost market share for the sixth straight year. But the news wasn't all bad. The survey reported a fair amount of badly needed investment in the hot beverage business. While vendors invested in dual-cup machines in the mid-1990s, that upgrade itself wasn't enough for vendors to keep up with changing consumer preferences.

As noted in last year's report, the younger generation, raised with bet-

Hot beverages

Year	Machine Total
1995	355,320
1996	368,025
1997	377,225
1998	386,600
1999	411,000
2000	425,000

ter quality coffee served in specialty coffee houses, wanted better vended coffee. Vending machines required a more dramatic change than dual cup capability and bean grinders.

In the late 1990s, a few equipment manufacturers came up with machines designed to look more like coffee houses that offered more product choices. Concurrently, coffee roasters introduced more spe-

cialty blends for vending.

While not enough to influence the coffee segment's results in 2000, these efforts bore some fruit as the survey reported nearly a 5.0-point gain in the amount of freeze-dried specialty coffee vended. Freeze-dried specialty coffee did not refer only to product sold through dedicated, freeze-dried machines, which declined in number. Most specialty

coffee sold in hot drink venders was freeze-dried.

In addition, a slight, 0.3-point gain was reported in fresh-brew, specialty and flavored coffee. Freeze-dried and fresh-brew specialty coffee both grew at the expense of decaf, regular, tea, hot chocolate and soup in 2000.

Single-cup brewers increase

The report indicated that the placement of countertop, single-cup brewers grew for the fourth straight year. Single-cup brewers are usually placed on free-vend, but can be coin-operated as well. Vendors found single-cup brewers a useful tool servicing locations too small for free-standing hot drink machines.

Many vendors also viewed single-cup brewers as delivering a higher quality cup of coffee than traditional coffee venders.

Larger operators grabbed a disproportionate share of the hot beverage business in 2000, when the percentage of vendors involved in hot beverages fell from 51 to 42 percent. The good news was that hot drink vending became centralized in larger companies that possess the financial wherewithal to handle this increasingly capital-intensive business.

The best news in hot beverages was in OCS operated by vendors. After dropping two-tenths of a point in market share in 1999, OCS rebounded by three-tenths of a percent in 2000, returning to the growth trend of 1995 to 1997. The improvement in 2000 was partly driven by vendor expansion into OCS, but, as noted last year, this expansion has slowed since the mid-1990s.

The expansion of larger vendors into OCS factored heavily into the growth this product segment witnessed in 2000.

Extra-large operators were also much more active in the bottled water business than medium-size and small operators.

Vendors found OCS customers

NEW VENDING SPECIALTY: FROZEN FOOD AND ICE CREAM SERVICE

Everyone in the vending business is familiar with ice cream contractors. Most vendors are also aware that ice cream providers have been upgrading their old 3- and 4-select machines with the new, multi-product frozen food machines.

Does this mean the ice cream contractor will become a frozen food specialist? Maybe.

Most of the traditional ice cream specialists haven't expanded into the food business. But some of the new players are looking at everything the new generation of frozen food machines can merchandise.

Regal Vending Inc., based in St. Paul, Minn., could be a new breed of frozen vending specialists. The four-route company, launched by Tim

French four years ago, handles both food and ice cream for vendors in the Twin Cities area. French requires a minimum population of 300. Most of his business has been referred by full-service vendors.

"The niche is attractive," said French, a former cold beverage salesman who claims he got the idea from another frozen vending specialist in Southern California. "Most people (operators) aren't going to get involved with it."

So far, French pegged his sales mix at 60 percent ice cream and 40 percent frozen food, both in units and dollars. Hence, his ratio of food to ice cream is higher for food than most frozen vending machine operators.

French said many full-line vendors have found his services useful since it eliminates the hassle of being in the food business. "A lot of times they like to take that refrigerated machine out and put ours in," he said.

French echoes the complaint others have voiced about frozen food: There isn't enough product variety available.

Ice cream is easier to source, he said, but price resistance is an issue. Encountering resistance at \$1.75, he has been unable to vend the premium ice cream products.



Tim French has been able to grow his frozen machine business in the Twin Cities strictly on vendor referral.

Hot beverage machines by type — five-year trend

Type of machine	% of total					Projected total				
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000
Fresh-brew, preground	51.2%	50.1%	49.4%	52.5%	54.5%	188,429	188,990	189,989	215,775	231,625
Fresh-brew, whole bean	28.5	31.2	32	29.7	29.8	104,887	117,694	122,712	122,067	126,650
Dedicated freeze-dried	15.4	14.7	15.3	12.3	10.4	56,676	55,452	58,150	50,553	44,200
Single-cup	NA	3.1	3.3	5	5.3	NA	11,694	15,629	20,550	22,525
Other	4.9	0.9	0	0.5	0	1,472	3,395	0	2,055	0

Hot beverage sales — five-year trend

Type	% of total					Projected total				
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000
Fresh-brew regular	58.4%	52.8%	55.6%	59.5%	58.1%	\$835.1M	\$792.0M	\$816.0M	\$880.6M	\$865.7M
Fresh-brew decaf	8.0	12.5	7.7	7.4	6.5	128.9M	187.5M	141.0M	109.5M	96.9M
Fresh-brew specialty/flavored	NA	11.8	9.0	8.1	8.4	NA	177.0M	129.0M	119.9M	125.2M
Freeze-dried regular	5.8	3.5	5.6	6.7	6.5	82.9M	52.5M	82.0M	99.2M	96.8M
Freeze-dried decaf	2.9	1.4	0.7	2.0	1.9	41.5M	21.0M	10.0M	29.6M	28.3M
Freeze-dried specialty	6.6	2.8	6.0	4.1	9.0	94.4M	42.0M	88.0M	60.7M	134.1M
Tea	1.5	2.1	7.6	2.0	1.9	21.5M	31.5M	105.0M	29.6M	28.3M
Hot chocolate	7.3	11.1	7.6	8.1	6.5	104.4M	166.5M	105.0M	119.9M	96.8M
Soup	NA	2.1	0	1.4	0.6	NA	31.5M	0	20.7M	8.9M
Other	9.5	0.7	0	0.7	0.6	31.5M	10.5M	0	10.4M	8.9M

Hot beverage prices, five-year trend

	1996	1997	1998	1999	2000
Fresh brew regular	37 cents	39 cents	38 cents	36 cents	38 cents
Fresh-brew decaf	38	40	40	36	39
Freeze-dried regular	33	32	33	36	38
Fresh-brew specialty	46	51	48	42	51
Freeze-dried decaf	33	34	34	36	39
Freeze-dried specialty	43	38	44	45	51
Tea	34	36	37	35	38
Hot chocolate	36	40	38	39	40
Soup	NA	39	38	36	35

to be less resistant to price increases than vending customers. Moreover, while downsizing impacted the large OCS accounts as much as the large vending accounts, the smaller-size OCS account base offered more growth opportunities.

Vend food grows

Food continued to gain market share as a percentage of vend prod-

uct sales in 2000, but as with hot beverages, the larger operators assumed a bigger portion of the business. Because of the higher equipment, product and service costs required, food has long represented the slowest return on investment for all vending product segments. For most vendors, it never turns a profit.

While frozen-prepared offerings

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have increased over the years, so has the use of freshly prepared food in recent years. The gain in fresh food reflected the growing role of larger operating companies. The survey found that the larger the operator, the higher the percentage of fresh food used. For frozen-prepared food, the opposite held true.

The survey has long indicated that smaller operators rely almost

entirely on frozen-prepared and shelf stable food. In 2000, small operators nearly monopolized the use of shelf stable food.

The percent of frozen-prepared vend food jumped about 4 percentage points in 2000, at the expense of shelf stable food, not freshly prepared food. Frozen-prepared products continued to proliferate in 2000.

Branded food offerings increase

Working with vend product distributors, several manufacturers of frozen-prepared food supported equipment purchases by offering vendors free product as frozen food machine purchase incentives.

More restaurant brand food products became available in 2000, continuing a trend that gathered momentum in 1999. One food manufacturer, Luigino's Inc., introduced a branded frozen food machine in 2000 — Michelina's.

Food prices posted the largest gains in any segment in 2000. While average retail food prices fluctuated from \$1.43 to \$1.52 for fresh food over the previous four years, operators reported charging \$1.67 in 2000. A similar increase was shown for frozen-prepared products.

For the second straight year, the survey reported that the larger operators used more temperature-controlled trucks and commercial

microwave ovens than small operators.

Higher prices will improve profitability and encourage machine placements. Until prices reach higher levels, however, vendors cannot accommodate many new requests for food machines.

Frozen machines keep growing

For several years, vendors have limited food machines to locations with minimum population counts of 100 to 150 people. As a result, the growth in refrigerated food machine placements leveled off in 1999.

Frozen food machines continued to climb at a rapid clip in 2000, but from a much smaller base of machines. Equipment manufacturers and operators alike agreed that the majority of these machines were mainly used for ice cream.

Some vendors reported that frozen food machines allowed them to serve food in locations where they couldn't otherwise provide it. These were locations that were too small to financially justify more than weekly service, which is needed for a refrigerated food machine.

Despite all of the frozen-prepared products introduced in the last few years, many vendors reported that not enough frozen food variety existed to support frozen food machines. Food sourcing remained an issue in 2000 for vendors, as the amount of frozen food warehoused by vend product distributors did not change significantly.

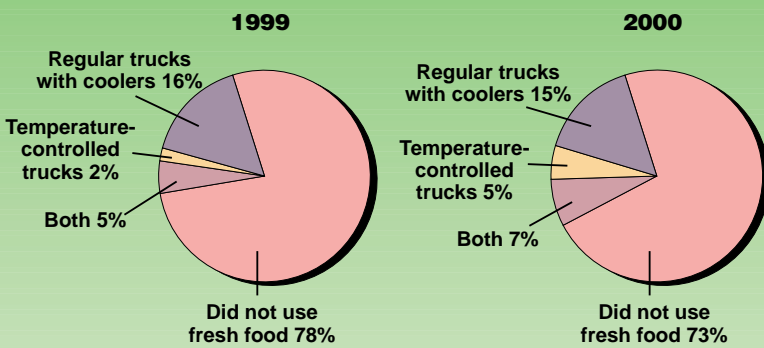
The number of food systems that heat and serve prepared food did not increase substantially in 2000. One manufacturer, KRH Thermal

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Cigarette machines

Year	Total
1997	58,800
1998	52,000
1999	41,600
2000	40,200

TYPE OF TRUCK USED FOR TRANSPORTING FRESH FOOD



Food machines — six-year trend

Machine type	1995	1996	1997	1998	1999	2000
Refrigerated	164,992	164,245	165,100	176,753	177,150	177,450
Frozen*	1,800	4,250	7,217	13,367	19,017	26,520
Heated	NA	2,358	2,300	1,900	1,900	1,700
Ambient	NA	NA	1,100	1,200	1,070	1,100
Food systems (pizza, popcorn, french fries)	1,088	1,128	1,100	1,275	1,580	1,750

*Most were used for Ice Cream.

Vend food sales — five-year trend

Source	% of sales					Projected total				
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000
Freshly prepared	62%	62.1%	62.1%	63.7%	63.4%	\$886.6M	\$943.9M	\$968.7M	\$1.08B	\$1.17B
Frozen-prepared	22.6	24.8	23.5	26.9	28.9	323.2M	376.9M	366.6M	458.1M	534.6M
Shelf stable	14.6	11	9.8	8.2	7.7	208.8M	167.2M	152.8M	139.6M	142.5M
Other	1.5	1.4	4.6	1.2	0	21.5M	21.3M	71.7M	20.4M	0

Vend food prices — five-year trend

Type	1996	1997	1998	1999	2000
Freshly prepared	\$1.43	\$1.46	\$1.52	\$1.47	\$1.67
Frozen-prepared	1.41	1.51	1.48	1.44	1.62
Shelf stable	1.13	1.15	1.20	1.26	1.28

REFRESHMENT SPECIALIST PEGS ITS FUTURE ON THE INTERNET

Only a minority of vendors is marketing online, but one Pacoima, Calif.-based operation — Dr Soda Co. — credits much of its recent growth to orders placed over the Internet. Owner/founder Don Rubenstein has become a serious student of online marketing and he claims it has paid off. The company recently completed its best year ever, and 2001 is shaping up even better.

"I feel that the growth of this company is based upon our Internet business," Rubenstein said. "We've always tried to make technology a partner."

While he got into the business on the vending side in 1984, Rubenstein was quick to see the potential of the small location market, customers with 5 to 50 people. He sees Dr Soda Co. as an office refreshment specialist. The company ships snacks, soda, juices, kitchen supplies and water by truck to small locations in Southern California.

In 1992, Rubenstein did what many office refreshment operators do — he organized a product catalog. The problem was keeping it current. Here was where Rubenstein saw the World Wide Web offering an obvious benefit: a web site can be updated quickly and easily.

Mastering the Web, however, was no easy feat. Rubenstein spent untold hours at his desktop learning as much as he could before going online with his first website in 1996.

To this day, he takes all product photos himself using a digital camera. His main website — www.dr soda.com — enables existing customers to place orders online. Orders from outside the Los Angeles area are shipped via UPS.

Rubenstein soon found a large number of customers preferred the convenience of ordering online. His online business now represents the equivalent of one full route.

Last year, Rubenstein launched a second website — wideawakecoffee.com — for Web surfers who are not existing customers. This site offers free shipping for minimum orders of \$30.

So far, the second web site has been successful, Rubenstein claims, but requires ongoing promotion. He said he allows himself time to make 15 mistakes a day in his online marketing endeavor.

"Having a website is only about 5 percent of the solution," he said. "Ninety percent is search engine placement."

"Successful marketing online doesn't come easily," said Rubenstein. He presently does double duty as manager and webmaster of his 16-person company, which is more than two full-time jobs. But to succeed in online marketing, he feels he has little choice. Being such a new field, online marketing requires a lot of trial and error.



Don Rubenstein, fifth from left, and his crew at Dr Soda Co. have reaped big gains marketing over the Internet.

MINNESOTA VENDOR FINDS UPSIZING CANDY A GOOD WAY TO BOOST SALES, PARTICULARLY IN CHILDRENS ACCOUNTS

Most vendors read the *Automatic Merchandiser* State of the Industry Report to make sure they are keeping up with the trends. Some, such as Midwest Vending Inc., based in Burnsville, Minn., read it so to make sure they are bucking some of the trends.

This year, Joe Harris, general manager, was glad to know most of his competitors haven't learned the benefits in upsizing their candy selections. He's found it a good way to increase revenues in his existing accounts.

In recent years, candy manufacturers, borrowing from their salty snack competitors, have introduced larger-size versions of standard products. As this year's *Automatic Merchandiser* State of the Vending Industry Report indicated, these products did not make much headway in the past year.

In most cases, operators who opted to use the larger size candy items used them as replacement items, which they rotated in place of the standard, smaller versions. Harris, on the other hand, in many cases offered both large and regular sizes of the same product. He priced the larger items at \$1.00 to \$1.25.

The strategy was particularly effective in schools, hospitals, amusement parks, pools and bowling alleys, according to Harris. "The younger market likes it," he said.

Harris has even used items not packaged for vending, such as theater pack candies. The higher profit margins were such that he didn't mind losing a few rebate points on these products.

The big candy has gone over especially well in schools, a market in which Midwest Vending has lost the cold beverage business to bottlers.

Systems LLC, sold its multiple-select, Hot Choice machine to vendors on an exclusive basis, and represented about a third of all food systems on location. The balance included a variety of pizza, french fry and popcorn systems.

The slowdown in food machine placements in the past two years indicated that the vending industry has fallen behind in its effort to provide more convenient meals. Restaurants, supermarkets and convenience stores, by contrast, sustained faster

growth by adapting their formats to meet this need.

Milk shows new growth

Milk, a challenging product to track due to the variety of ways it's vended, expanded in 1999 and 2000, thanks to the popularity of pint-size plastic bottles. For the first time, the *Automatic Merchandiser* State of the Vending Industry Survey separated milk sales from ice cream sales; in previous years, vendors were asked to report "dairy" product sales.

While still a miniscule product category, milk posted a high, double-digit increase in 2000 as more operators expanded into the category.

While the development of glassfront, dedicated milk machines generated attention in 2000, most of the sales increase did not come from dedicated, glassfront venders. Dedicated, glassfront milk machines were mostly in the test stage in 2000 and the category as a whole posted a small increase.

Asked to break out milk sales by type of vender, operators reported most milk sales (52.3 percent) came from refrigerated food machines. Most of the balance (40 percent) was sold in traditional, 3- and 4-select,

dedicated milk machines. Only 4.3 percent was sold in cold drink machines with nonmilk beverages.

Surprisingly, small operators used the most dedicated milk machines. This was because smaller operators had fewer food machines.

The popular pint-size bottles also found a place in glassfront cold drink machines. Vendors using the high-ticket glassfront machines reported bottle milk a welcome option, given the need for product variety to merchandise this machine successfully.

While milk consumption nationwide has been flat for many years, the Beverage Marketing Corp. reported pint-size packages have grown in the last decade while half-gallon, quart, and half-pint containers have lost market share. This reflected growing consumer preference for "on the go" meals.

Consolidation among dairies improved availability of the popular plastic bottles. Plastic milk bottles were available in more than half of the markets in the U.S. in 2000.

Supplementing product availability was a marketing initiative by the dairy industry to promote milk vending. The dairy industry, in conjunction with some vending equipment manufacturers and operators, launched dedicated milk machine tests in different markets and different types of locations.

A major focus was on the secondary school market. Secondary schools found themselves under continued public pressure in 2000 to provide more nutritious beverages to youngsters.

Ice cream shows new promise

The growth in frozen food machines in the last decade has done more for the industry's ice cream sales than for its intended target, perishable food. Frozen food machines have given more operators a taste of the ice cream business than ever.

In 2000, the *Automatic Merchandiser* State of the Vending

Ice cream sold by machine type

Machine type	Percent	Projected sales
Combination food/ice cream	39.9%	\$112.4M
Old style, 3- and 4- select	48.1	135.5M
Dedicated, new style multiproduct	11.3	31.8M
Dual temperature machine	0.6	1.7M
Other	0.1	281,800

Ice cream sales — five-year trend

1996	1997	1998	1999	2000
\$115.6M	\$143.7M	\$186.2	\$225.42M*	\$281.8M

*Last year total for ice cream, not including frozen confections, was incorrectly reported as \$114.17M. It should have been \$214.17M. Frozen confections represented another \$11.25M, as reported last year.

Dedicated ice cream machines — five-year trend

1996	1997	1998	1999	2000
55,090	67,053	56,487	42,931	44,543*

*Of the 26,520 frozen food machines shown on page A-18, 22,542 are included in this number

Ice cream prices — five-year trend

	1996	1997	1998	1999	2000
Ice cream	64 cents	71 cents	72 cents	72 cents	80 cents
Frozen confections	98	91	\$1.13	\$1.00	\$1.31

Industry Survey for the first time asked vendors to break out ice cream sales by type of vender: frozen food machines with both food and ice cream, dedicated old style 3- and 4-select machines, dedicated new-style multiple selection machines, or dual chamber frozen and nonfrozen machines.

The survey indicated that 3- and 4- select machines accounted for most ice cream (48.1 percent). A sizeable percentage (40 percent) of ice cream was sold in combination frozen food/ice cream machines. Only 11.3 percent of the sales were credited to the newer style, multiproduct machines dedicated to ice cream without any frozen food. However, vendors particularly active in ice cream reported replacing many of the older machines with newer, multiproduct versions.

The rising price points of ice cream product, would also indicate

that the newer, multiprice, multiselection machines accounted for a higher percentage of sales. The older machines were less capable of merchandising the larger, higher price products.

Unlike the hot beverage and food categories, the survey reported more operators expanded into the ice cream business in 2000 than got out

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Milk sold by machine type

Machine type	Percent	Projected sales
Dedicated milk	40.0%	\$184.5M
Cold beverages	4.3	19.8M
Refrigerated food	52.3	241.2M
Other	3.4	15.7M

Milk sales — five-year trend

1996	1997	1998	1999	2000
\$325.9M	\$287.7M	\$280.0M	\$399.3M	\$461.2M

Editor's Note: Last year's report incorrectly stated milk sales as vended entirely from dedicated machines.

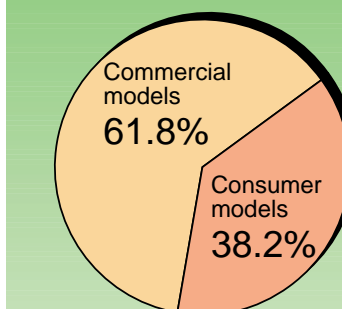
Dedicated milk machines — five-year trend

1996	1997	1998	1999	2000
35,291	28,737	42,015	57,530	60,000

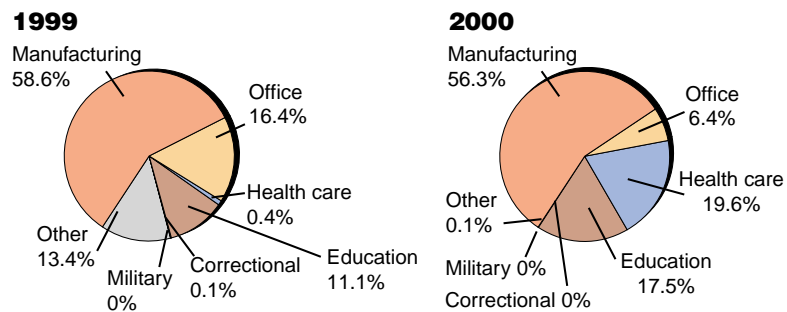
Milk prices — five-year trend

1996	1997	1998	1999	2000
51 cents	55 cents	56 cents	55 cents	54 cents

Microwave ovens 2000



Foodservice customer locations



Type of manual foodservice provided in 2000

Full-service cafeteria	61%
Catering	71
Speed line	13
Special events	43
Deli/soup/salad	31
Scramble system	1
Other	18
More than one of above	89

Computer use in 2000

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

General accounting	80%
Route management	55
Inventory control	55
Commissary management	9
Fleet/equipment maintenance	14
Food forecasting	13
Other	7
Use handhelds	21

Uses of the Internet:

	1999	2000
Do not use the Internet	38.0%	38.0%
Purchasing product or equipment	33.0	39.0
Operate a web site	17.0	20.0
Marketing services to customers	15.0	19.0
One or more of the above	53.0	59.0
No answer	9.0	3.0

of it. The new generation of machines appears to have given new life to the category.

But because the new machines cost more, vendors noted they must more carefully scrutinize location requests for ice cream.

On the upside, the new machines delivered higher sales and profits to the better locations, vendors active in the category noted.

Data from the International Ice Cream Association confirmed that consumer demand for ice cream has favored the higher

priced, premium products in the last few years.

Vendors registered the same complaint about ice cream as they did with food: a lack of variety. Only a minority of vend product distributors carried ice cream in 2000. Ice cream specialists that deliver to retail outlets and broadline foodservice distributors have not emerged as sources for vendors. As a result, many vendors reported being unable to provide the variety they desired.

Manual foodservice slows

As economics pushed the more capital intensive segments of automatic merchandising — food and hot beverages — to the larger operators, the same held true for manual foodservice, an even more capital intensive business.

In 2000, fewer operators provided cafeterias than in 1999, reversing the prior year's trend that was driven by a surging demand from manufacturing accounts. Manufacturing continued to represent the majority of foodservice accounts in 2000, with foodservice activity strongest in the East North Central and East South Central regions.

The spike in automotive-related manufacturing in 1999 reversed itself in 2000, significantly slowing requests for cafeteria service. As noted in last year's report, vendors were unable to meet many foodservice requests in 1999 because of the labor shortage.

In 2000, manual foodservice was one of the weakest revenue segments, posting a slight decline (two-tenths of a percent) in its share of total sales from the previous year. This factored heavily in the loss extra large firms experienced on a per-account basis in 2000. Nearly three fourths of the extra-large firms (73 percent) were active in foodservice.

In the last two years, a growing number of vendors have opted to partner with foodservice specialists to meet cafeteria requests. Higher

operating costs in the main business — vending — has made all but the nationals wary of getting into another high overhead business.

The National Restaurant Association reported that “noncommercial restaurant service” posted a 2.9-point gain in 2000, which was well below the 5.6-point gain for the overall foodservice industry. As noted already, traditional foodservice has lost market share to convenience dining.

2001 outlook uncertain

The slowdown that crimped what started as a strong year in 2000 carried through the first quarter of 2001 and will undoubtedly affect the current year's results. On the upside, doomsayers predicting a severe recession were proven wrong, as many factory orders recovered in the second quarter.

Vendors interviewed at random in mid-summer agreed that sales were recovering in many locations. At this writing, however, it was too soon to tell if 1999 sales levels will return.

While stock prices continued to fluctuate, the general trend was one of improvement over the negative fourth quarter of 2000. One sign of improvement could be seen in the rising payrolls of the financial service employers.

Low mortgage rates continued to support a strong residential and commercial construction market in most regions in 2001.

While automotive facilities continued to show weakness, retail auto sales held strong in the first quarter of 2001. New car sales held up thanks to low borrowing rates and dealer incentives.

Long-term, the outlook for the automotive sector is positive, with Nissan and Saturn planning major investments in facilities in the East South Central region.

Also helping vendors in the East South Central region were capital investments announced by computer

makers and courier services.

The Pacific region, meanwhile, managed to escape the widespread energy blackouts that were predicted, which is not to say costlier electricity hasn't affected the area's economy.

Rising fuel costs continued to plague operators in the first two quarters of 2001, but relief arrived in the third quarter.

Despite the economy, automatic

merchandising faces a bright future, given the number of operators investing in new equipment and technology. These improvements will enable operators to cash in on growing consumer demand for more convenient services.

Vendors will prosper by adapting to the new economy faster than they have in the past decade. **AM**

REGIONAL LEADER REAPS EXTRA BENEFITS AS A CANTEEN FRANCHISE

Why would a market leader like Cuyahoga Vending and Dining Operation Inc. choose to become a Canteen franchise? It wasn't that long ago, after all, that the Maple Heights, Ohio-based vending and dining operation bought out all of Canteen's routes in much of northern Ohio. Cuyahoga Vending had long prided itself on providing personal service that nationals couldn't offer. But in October of 2000, it became a Canteen franchise.

The main reason, according to James Variglotti, president, was to reduce costs. Being a Canteen franchise immediately enabled the company to save a lot of money in purchasing costs.

This, in turn, brought other benefits. The company has been able to use some of its savings to improve its benefits package, which helps retain employees. In today's economy, that might be the most important benefit Cuyahoga Vending has seen. Variglotti has also maintained the same pay increases as last year, despite a slowing economy.



Veteran driver Neil Dekam, left, trains Demetrius Burton in one of the new vending trucks with improved Canteen graphics.

Other benefits materialized, such as name recognition. Cuyahoga Vending & Dining has upgraded its service vehicles — which it now buys directly — with more professional graphics. Cuyahoga Vending has long prided itself on its commissary, but Variglotti admitted he was surprised by the positive customer reception to some of Canteen's proprietary

food products. As a Canteen franchise, Cuyahoga Vending & Dining can offer Rally's, Checkers, Blimpie, Sbarro and other branded products Canteen provides on an exclusive basis. Variglotti said the performance of these items surpassed his expectations.

As a franchisee, Variglotti still sees himself as an independent. But he has also been able to network with other franchise owners throughout the country, sharing best practices.

These benefits have convinced Variglotti that larger companies will dominate the industry in the years to come.