

# 2007: Vending becomes a tougher balancing act

**Operators move into survival mode as operating costs increase against limited growth opportunities. A constant focus on account profitability becomes the norm.**

By Elliot Maras, Editor

**B**y now, observant vending operators have recognized what factors they can and cannot control in the current operating environment. The environment will not improve any time in the near future.

The visionaries look forward to a time when customers will appreciate the benefits that vending provides and be willing to pay for it. They also believe that new technology will facilitate this change.

For the time being, that future remains distant. The *Automatic Merchandiser 2008 Vending State of The Industry Report* indicated that fiscal 2007 was another year of struggling to maintain profitability in the face of challenging business conditions. Fiscal 2007 was the third consecutive year in which vending operators posted a 3 percentage point revenue gain, driven mainly by manufacturer price increases.

Vending operators continued to struggle to raise prices in 2007 in the face of higher product costs, higher fuel costs and higher labor costs.

#### **OPERATING COSTS RISE ON SEVERAL FRONTS**

The National Restaurant Association (NRA) reported that wholesale food prices jumped 7.4 percent in





2007, the biggest 1-year increase in 27 years.

And clearly higher than retail prices being passed on to customers.

The average price for a gallon of gasoline rose from \$2.30 in January to \$3.20 in June, according to the government.

The higher labor costs mainly came from surging benefit costs, which operators must cover to maintain their work forces.

In addition, currency redesigns continued through 2007, requiring currency equipment upgrades. The survey found that close to 60 percent of operators upgraded currency handling equipment to accommodate new currency in 2007, as indicated in chart 6.

Vending operators were forced to find ways to reduce operating costs in order to protect profit margins. Fiscal 2007 marked the third straight year in which operators needed to find ways to reduce expenses since the opportunity for top line growth was limited to passing on manufacturer price increases. Location populations continued to downsize in most parts of the country in 2007.

One piece of positive news came from the National Automatic Merchandising Association (NAMA); the Operating Ratio Report found that NAMA members posted their third consecutive year of profit recovery in 2007. According to the report, which was based on 125 participating firms, return on assets rose to 5.9 percent in 2007. NAMA noted that this figure is only slightly above the 5.0 percent that most analysts view as the minimum acceptable level of profitability.

The NAMA report indicated that over the past five years, operating profit has varied from 0.9 percent in 2006 to 1.5 percent in 2004. That figure was 1.4 percent in 2007. The NAMA report found that sales for participating members rose 4.3 percent, surpassing the 3 percent figure from the Automatic Merchandiser report.

The Automatic Merchandiser State of the Vending Industry Report includes a larger sampling than the NAMA report.

Since NAMA members surpassed the industry as a whole in sales growth, it would stand to reason

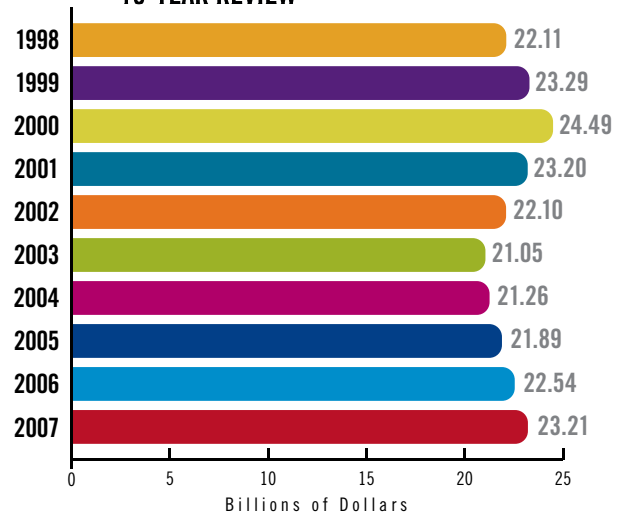
that the typical operating company also fell short of the NAMA members' profit performance.

All operators were forced to focus on profitability in 2007 in order to maintain positive cash flow.

The economy grew progressively worse during 2007. National unemployment was 4.6 percent at the start of the year and remained level all year long until December when it jumped to 5 percent, the largest monthly gain since 2001. This marked the first decline in employment following three years of steady growth.

Vending operators, like other service providers, suffered the impact of lower population counts in customer locations. However, the rise in unemployment brought one beneficial result: it helped stabilize operators' employee turnover. During high employment, business owners experience higher employee turnover and upward pressure on wages.

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



The drop in employment itself did not affect vending as much as some other industries since it did not occur in employment sectors that use a lot of vending. As noted in earlier reports, the most important employment customer segment for vending is manufacturing, and that segment delivered its biggest losses years ago.

#### MANUFACTURING FALLOUT CONTINUES

Nevertheless, fallout continued in the manufacturing segment in 2007. The automotive sector, a large manufacturing segment that historically generated plenty of work

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for vending and foodservice operators, experienced its fourth consecutive poor year in 2007, according to the Detroit, Mich.-based Automotive Information Center. Automotive production in the U.S. fell by 4.6 percentage points in 2007, its worst in four years.

Manufacturing accounts continued to represent the largest single share of vending machines, as indicated in chart 3. What this actually indicates, however, is that the vending industry has not been able to shift its customer base to the customer segments that have increased worker counts.

The restaurant and convenience store industries, by contrast, addressed this change in by expanding outlets, marketing through the mass media, and offering food and refreshments in a convenient manner, including cashless transactions.

Declining industrial productivity brought more challenges than benefits, namely in the form of weaker consumer confidence.

With costs continuing to rise and location population counts not following suit, the operating environment continued to favor the largest and smallest vending operating companies in 2007. Medium-size vending companies, those with \$5 million to \$10 million in sales, continued to lose market share to their smaller and larger competitors, as indicated in chart 2.

Many operators noted there were fewer medium-size vending companies in most major markets compared to several years ago.

The largest vending companies have the resources to compete in a more challenging environment while the smallest companies enjoy the benefits of less overhead.

Larger firms also have the ability to offer a wider variety of services, particularly manual foodservice, which has accounted for the largest share of the industry's volume in the last six years.

**CHART 2: OPERATOR SALES**

Size	Revenue range	% of 2007 Operators	Projected 2007 sales	% of 2007 sales	Projected 2006 sales	% of 2006 sales
Small	under \$1M	75%	\$1.06B	4.8%	\$1.01B	4.7%
Medium	\$1M to \$4.9M	17%	2.38B	10.8%	2.36B	11%
Large	\$5M to \$9.9M	5%	2.65B	12%	2.53B	11.8%
Extra large	\$10M +	3%	15.96B	72.4%	15.52B	72.5%
<b>TOTAL</b>			<b>\$22.05 BILLION*</b>		<b>\$21.41 BILLION*</b>	

\*Does not include 5 percent of total industry revenue for machines owned and operated by locations.

Editor's Note: Revenue totals for individual groups were rounded off, therefore the sums will not completely reflect the totals.

**OPERATOR CONSOLIDATION CONTINUES**

Consolidation among operating companies continued in 2007 as acquisition was seen by many operators as the only way to grow. However, there were fewer acquisitions among extra large companies (companies with more than \$10 million in annual sales) than in previous years. This was because most extra large companies interested in selling had already sold.

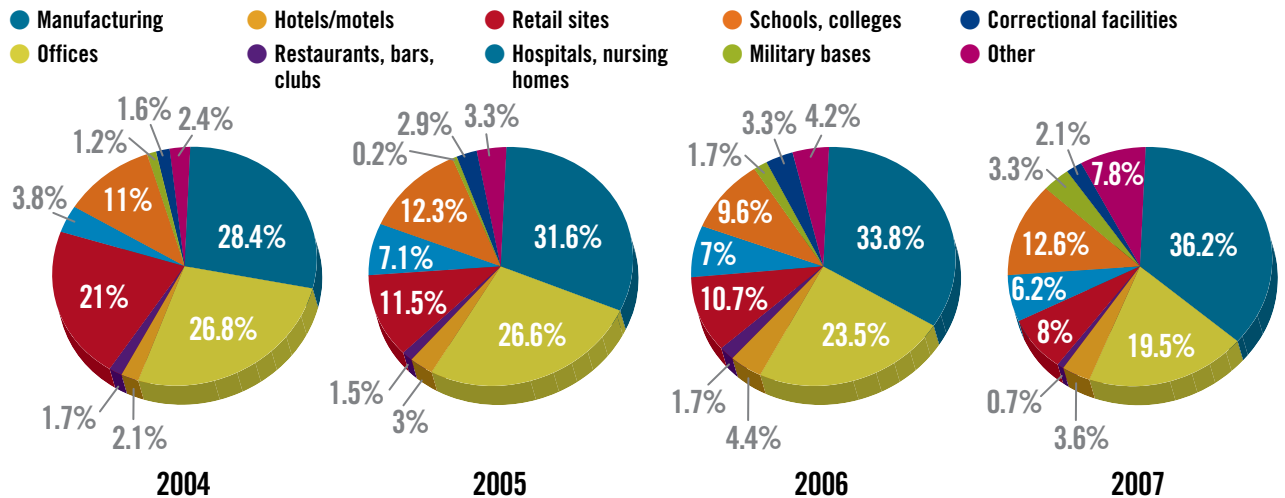
There were also acquisitions among both equipment and product suppliers in 2007, reflecting the challenged state of the industry.

**VENDING OPERATORS SLOW TO CHANGE**

The vending industry has been slow to change largely because the economics of operating a vending company

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**CHART 3: MACHINES BY LOCATION, 4-YEAR REVIEW**



has made it difficult to make the investments needed to be more competitive with other foodservice channels.

The industry continues to rely on an operating model based on the old industrial economy. This was an economy dominated by large work sites with captive audiences.

Under the new model, locations have fewer employees, employees have more diverse lifestyles and product preferences, and they typically are free to leave the work site for meals. Hence, the vending operator, to be competitive, must cater to a demographically diverse audience with products that are competitive with other retail outlets.

Vending equipment, technology and product suppliers have given the industry tools — such as cashless readers, bill recyclers and remote machine monitoring — to compete more effectively in the “new economy,” but vending operators need to be willing to make longer term investments in order to use these new tools.

The survey indicated that minimal progress was made in investing in new equipment or technology.

While operators reported raising prices more aggressively in 2007 (More than 80 percent of operators reported

raising prices), there were limits in how much they could raise prices without losing sales. Operators found they were able to gain approval for higher prices from account managers due to widely reported manufacturer price increases, but sustaining turns was another matter.

Operators typically found that it takes as long as two months for consumers to resume spending at prior levels after prices increase. Hence, raising prices resulted in an immediate sales drop.

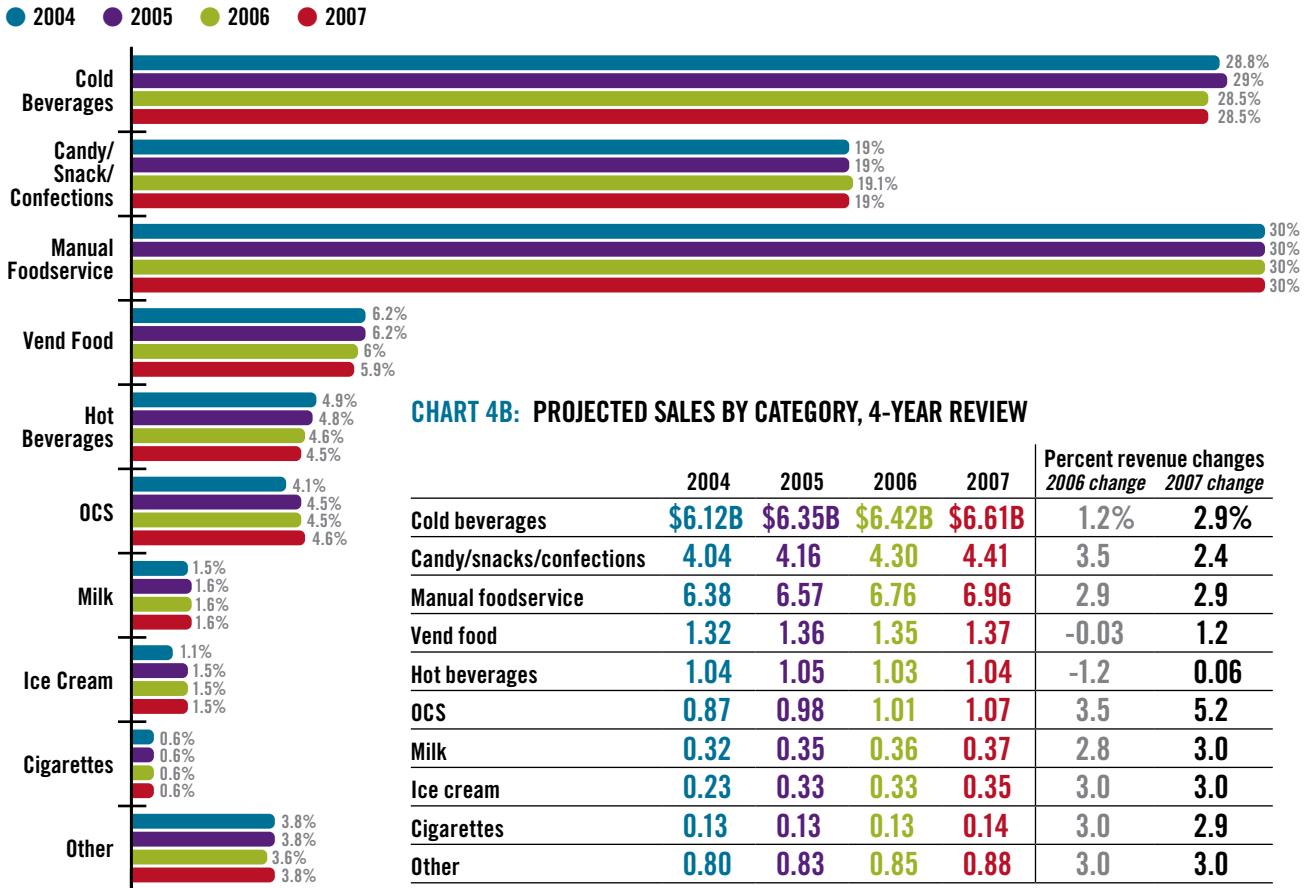
**PRICE INCREASES BRING NEW ISSUES**

In 2007, operators found that in many instances, consumers chose not to resume spending at prior levels. Operators found that consumers would not accept higher prices in vending machines even when those prices were lower than at other retail outlets.

The difficulty raising prices indicated that consumers overall did not recognize the full benefits that vending provides them, mainly convenience.

The difficulty in raising prices once again made it impossible for operators to invest in new technologies that

**CHART 4A: SHARE OF SALES BY CATEGORY, 4-YEAR REVIEW**



**CHART 4B: PROJECTED SALES BY CATEGORY, 4-YEAR REVIEW**

Category	2004	2005	2006	2007	Percent revenue changes	
					2006 change	2007 change
Cold beverages	\$6.12B	\$6.35B	\$6.42B	\$6.61B	1.2%	2.9%
Candy/snacks/confections	4.04	4.16	4.30	4.41	3.5	2.4
Manual foodservice	6.38	6.57	6.76	6.96	2.9	2.9
Vend food	1.32	1.36	1.35	1.37	-0.03	1.2
Hot beverages	1.04	1.05	1.03	1.04	-1.2	0.06
OCS	0.87	0.98	1.01	1.07	3.5	5.2
Milk	0.32	0.35	0.36	0.37	2.8	3.0
Ice cream	0.23	0.33	0.33	0.35	3.0	3.0
Cigarettes	0.13	0.13	0.13	0.14	3.0	2.9
Other	0.80	0.83	0.85	0.88	3.0	3.0

have the potential to improve customer perception of vending. In recent years, new technologies such as cashless transaction capability and remote machine monitoring were introduced promising added customer convenience.

Hence, the vending industry remained stagnated by a consumer not willing to spend the money that would allow the operator to invest in new features and benefits.

### OPERATORS CUT BACK

Facing limited prospects for sales growth, most operators sought to reduce expenses. This included reducing deliveries, removing non-producing equipment, paring variety in the machines to the stronger sellers, and eliminating less profitable accounts.

This “bottom line” approach to the business was contrary to the traditional desire to increase value to the customer through new products and services. In 2007, the industry moved further into a survival strategy.

Close to 60 percent of operators reported reducing deliveries in 2007, as indicated in chart 4. A similar percentage noted they adjusted their product mix in order to reduce deliveries.

Some measures operators used to cut costs required additional investment.

To reduce fuel expenses, some operators installed satellite tracking devices to enforce lower speeds. Others invested in driver training to encourage drivers not to make fast starts. Many invested more in vehicle maintenance.

A minority of operators charged customers for deliveries, a strategy that was more common in the OCS industry. In certain cases, operators deducted the fuel charge from location commissions.

Some operators removed machine parts from delivery vehicles and placed them on service vehicles to alleviate the weight, improving fuel efficiency of delivery vehicles.

Several operators in rural markets, where routes tend to be longer, added depots to cut windshield time.

While some situations encouraged operators to remove equipment, in others, they added it in order to increase capacity and reduce service frequency.

### NEW SERVICES ADDED

A less common approach was to invest to build the top line.

Close to one quarter of operators claimed they added new services in 2007, as indicated in chart 5b. The most common expansion was OCS, cited by about 35 percent of operators who added new services.

## About the survey

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 vending merchandise, soft drink bottlers whose main business was not vending, 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.

For the fourth straight year, Pittsburgh, Pa.-based Management Science Associates (MSA) Inc. provided input on vending sales for the State of the Vending Industry Report. MSA receives machine level data from several route automation software providers with the goal of analyzing machine activity.

MSA markets two data services to report on industry performance: IntelliVen, which monitors machine level sales activity, and ProVen, a dollar-based projection service which calculates item volume, turns and distribution at the total U.S., region and class of trade levels.

The State of the Vending Industry 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 is estimated to be about 5 percent of the total industry.

The next most common answer, about 30 percent, was shipping product to locations that were not vending locations. This is a way to increase route density. By delivering to non-vending stops, operators increased sales and improved return on assets. This is sometimes referred to as wholesale delivery.

Oftentimes, businesses that are not vending customers buy the same products that vending operators warehouse. Such businesses oftentimes find it more economical to have vending operators deliver the products than to have broadline foodservice distributors deliver them or send their own employees out to buy the products.

About 20 percent of operators noted they expanded into “other” businesses besides those noted above.

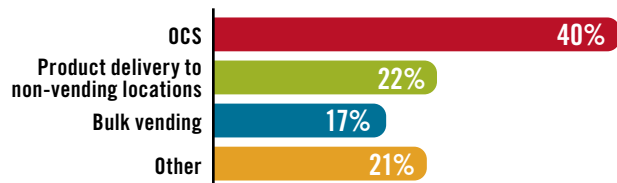
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**CHART 5A: PROFIT IMPROVEMENT MEASURES IN 2007**

Reduced deliveries	60%
Adjusted product mix to help reduce deliveries	60
Expanded into new services	25

**CHART 6: TECHNOLOGY UPGRADES IN 2007**

Upgraded currency handling equipment to accept new currency	60%
Installed bill recyclers	29
Added remote monitoring	5
% of machines equipped with cashless readers	2
% gain in amount of cashless readers over prior year	80

**CHART 5B: NEW SERVICES OFFERED IN 2007**

More than 14 percent of operators that expanded into new services added bulk vending in 2007.

**INVESTMENT IN PERSONNEL**

Many operators found that it paid to have dedicated sales and customer service personnel. While this represented an added expense, having a person dedicated to communicating with customers and potential customers was found to make a difference winning and keeping accounts.

Investing in employee training for all positions often proved beneficial in reducing both employee and account turnover.

Investing in new technology was less common since most of it has not been proven and feedback from the field has not been encouraging.

Another reason operators were slow to invest in technology was that customers did not generally ask for it, although some reported that some large public locations asked about credit card readers.

The survey did indicate a slight gain in cashless readers compared to the past two years, as indicated in chart 6, but the industry remains far behind its retail competitors in this area.

Cashless technology providers noted that beverage bottlers invested the most in cashless vending, and mostly for machines they serviced themselves.

Vending operators who have used “open” cashless – systems that accept debit and credit cards as opposed to “closed” systems – reported low customer acceptance. While experiences varied, most operators using cashless found that acceptance was best in machines with higher price points and in locations patronized by professionals who tend to use cards more.

**CREDIT CARD READERS FIND SLOW ACCEPTANCE**

Customer use of credit card readers ranged from low single digits to low double digits. In some cases, the usage was higher, but these instances were rare.

Some observers expected stronger response to cashless vending due to the rapid deployment of cashless readers in quick serve restaurants and convenience stores. A big difference, however, is that the retail environment is an attended one; consumers have more confidence using a credit card when a clerk is present than in a machine.

Even in the best locations, however, operators noted that customer response varied. One reason response was not stronger is that consumers were not used to using credit and debit cards in vending machines. This will not change until machines become more common, which in turn, requires more operator purchases.

Some operators were able to get locations to cover some of the cost of having cashless readers. In some cases, operators deducted part or all of this cost from location commissions.

The few vending operators who have operated cashless technology for several years reported that cashless purchases take time. These operators noted that over the course of a few years, cashless purchases grow. They also noted that cashless capability results in multiple purchases.

The vending industry’s reluctance to invest in cashless is not without justification, based on results in the convenience store industry. According to the National Association of Convenience Stores, c-store sales reached a record high of \$577.4 billion in 2007, but profits dropped by \$1.4 billion, largely because of higher credit card fees, which surged 15.2 percentage points.

**REMOTE MONITORING GROWS**

More vending operators invested in remote machine monitoring in 2007, but this technology still remained in its infancy. Remote monitoring allows better operating efficiency since it enables an operator to know machine inventory needs before the driver loads his truck. It also offers a tool for tracking unit sales and better understanding account preferences.

Remote monitoring is especially useful for frozen machines; by alerting the operator to malfunctions, it can prevent costly melt downs.

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As with cashless transaction capability, the company’s operating systems must support the technology. For remote monitoring to improve product selection and delivery, scheduling deliveries and ordering product need to be coordinated.

Remote machine monitoring technology also gives the operator a tool to allow a customer to review machine activity via the Internet. This provides a new level of machine accountability, for both the operator and the customer.

Some operators found remote machine monitoring a good selling tool.

As an accountability tool, remote machine monitoring helps operators combat dishonest sales reporting by dishonest competitors.

Several operators noted that vending management companies encouraged the use of remote machine monitoring. This, however, was not a great motivator for operators. In most cases, the management companies expected the operator to cover the investment.

Cashless transaction and remote monitoring technologies are interrelated in that both can usually use the same telemetry system. When an operator invests in one of these two technologies, he oftentimes provides at least part of the foundation for the other.

In recent years, vending technology providers have worked to coordinate their products with one another. In addition, providers of remote monitoring often offer cashless transaction capability, and vice versa.

Cashless vending and remote machine monitoring capabilities both played a role in school foodservice programs that allow school systems to better monitor meal programs in 2007. Vending machines equipped with these technologies allowed schools to identify students, authorize transactions, dispense healthy meals, chart nutritional consumption, and compile audit data for compliance with reimbursable meals programs.

#### BILL RECYCLERS INCREASE

Bill recyclers that allow customers to receive bills as change from machines, introduced in recent years as a way to accommodate higher denomination bill acceptance, posted growth in 2007. Some operators did not see the benefit of bill recyclers when they could pay out dollar coins with much less investment, however.

New dollar coin designs were introduced during 2007, raising public awareness of dollar coins.

#### WELLNESS REMAINS AN ISSUE

Health and wellness continued to grow in 2007, a concern that has frustrated operators for years. In 2007,

there were signs of rising consumer awareness of healthy offerings in vending machines.

School systems first began mandating healthier options in 2006. While schools represented only a small fraction of vending accounts, the publicity surrounding the mandates raised consumer awareness about health and wellness, some of which transferred to traditional vending accounts.

In addition, incidents of food-borne illness kept health and wellness in the public eye during much of 2007.

Product manufacturers, to meet consumer demand, invested in “better for you” products, including vendible products.

Product manufacturers also invested in public information campaigns to make consumers aware of the health oriented products. Most major manufacturers promoted health, along with awareness of their “better for you” products.

Operators serving schools noted that following initial customer resistance, sales of “better for you” products gained momentum. The sales did not fully recover to pre-2006 levels.

#### GREEN AWARENESS RISES

Another concern that became more pronounced in 2007 was environmental awareness. Customers asked operators to provide recyclable cups and packages. Some even asked operators to use can beverages instead of bottles since aluminum is seen as being more recyclable.

**CHART 7A: COLD BEVERAGE MACHINES BY TYPE, BOTTLERS AND VENDORS, 4-YEAR REVIEW**

BOTTLER OWNED				
TYPE	2004	2005	2006	2007
Can closed front	\$1.06M	\$1.00M	\$1.00M	\$1.00M
Bottle closed front	1.04	1.03	1.03	1.03
Combo bottle & can closed front	378,000	378,000	378,000	378,000
Glassfront	40,000	92,715	118,800	153,000
Cup	0	0	0	0
<b>TOTAL</b>	<b>\$2.518M</b>	<b>\$2.500M</b>	<b>\$2.527M</b>	<b>\$2.561M</b>
VENDOR OWNED				
TYPE	2004	2005	2006	2007
Can closed front	842,000	830,000	830,000	830,000
Bottle closed front	115,500	115,000	115,000	115,000
Combo bottle & can closed front	42,000	42,000	42,000	42,000
Glassfront	8,000	12,285	16,200	17,000
Cup	30,000	20,000	15,000	13,000
<b>TOTAL</b>	<b>\$1.037M</b>	<b>\$1.019M</b>	<b>\$1.018M</b>	<b>\$1.017M</b>

The environmental movement included calls for banning or taxing bottled water. Consumer surveys indicated little support for these proposals, but the proposals continued and gained support among more government entities throughout the year.

The concern about landfill waste dovetailed with concerns about groundwater supplies and water safety. Vending operators involved in bottled water coolers and water filtration used these concerns to their advantage in 2007.

**COLD BEVERAGES REMAIN CHALLENGED**

The challenged state of cold beverage vending played a major role in the industry’s overall struggle for profitability in 2007. As indicated in chart 7c, bottle prices increased in 2007 on average, but only barely, and oftentimes not enough to cover manufacturer increases. Since beverages were a dominant product segment, this accounted for a big part of the vending industry’s inability to improve profits.

Chart 7b indicates that cans made a comeback in 2007, marking the first shift in a trend that began in the 1990s when bottlers began introducing plastic bottles. The change in 2007 reflected better pricing that operators found for cans in many, though not all, geographic markets.

The cold beverage increases in 2007 marked the first gains for this segment in two years. Early in 2007, cold beverage suppliers shocked vending operators with unprec-

edented price increases, as high as 25 percentage points. Coca Cola Enterprises Inc., the nation’s largest bottler, said increases were needed due to higher costs for raw goods and aluminum.

The fact that operators were able to raise can prices more than bottle prices (2.9 points for cans, 1.85 points for bottles) as indicated in chart 7c resulted in better margins on cans. Operators felt more flexibility with can pricing partly because cans were less visible in other retail outlets for consumers to make price comparisons.

Many operators also favored cans since they are easier for drivers to haul; take up less inventory; can be transported on smaller, more fuel efficient vehicles; and require less frequent service.

Nevertheless, bottles remained the dominant package in 2007. In some geographic regions, operators complained that bottlers undersold them in their own (bottler owned) machines.

In many situations, operators felt they could not switch to cans because consumer demand for bottles was so entrenched.

Some observers believe that weakening consumer confidence will revive demand for the lower priced cans. If this happens, vending operators will be in a strong position compared to competitors relative to other retail channels, given the amount of cans they carry.

Where 20-ounce bottles accounted for 75 percent of vending sales in 2007, this configuration accounted for 90 percent of all carbonated soda sales, according to Beverage Digest, which tracks beverage trends.

Convenience stores, which also cater to single-serve purchases, were comparable to the vending channel in the amount of 20-ounce beverages sold in 2007. According to Beverage Digest, 40 percent of c-store soda was 20-ounce in 2007.

Compounding the pricing pressure on vending operators were retail outlets, such as supermarkets, mass merchants and convenience stores. In some cases, these outlets sold bottles as loss leaders.

More typically, competing retail outlets charged higher prices for 20-ounce bottles than vending operators.

The fact that cold drink sales rose more than the price for the main package configuration (2.9 points versus 1.85 points) while machine placements increased only slightly indicated turns improved in 2007. One explanation is the growth in glassfront machines, which typically boost sales by 20 to 50 percent.

**CHART 7B: COLD BEVERAGE SALES, 4-YEAR REVIEW**

% OF SALES				
TYPE	2004	2005	2006	2007
Can	24.4%	23.5%	23.5%	25%
Bottle	74.9	76.0	76.0	74.5
Cup	0.6	0.5	0.5	0.5
PROJECTED TOTALS				
TYPE	2004	2005	2006	2007
Can	\$1.49B	\$1.489B	\$1.509B	\$1.653B
Bottle	4.58	4.818	4.882	4.928
Cup	0.036	0.032	0.032	0.033

Editor’s Note: These totals only apply to the volume sold by vending operators, not bottlers.

**CHART 7C: AVERAGE COLD BEVERAGE PRICES, 4-YEAR REVIEW**

TYPE	2004	2005	2006	2007
Can	62¢	67¢	67¢	69¢
Bottle	\$1.01	\$1.08	\$1.08	\$1.10
Cup	60¢	59¢	66¢	70¢

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**COLD BEVERAGE PREFERENCES CHANGE**

Vending operators with substantial cold beverage volume were locked into a profit squeeze that the beverage industry has struggled with in recent years due to changing consumer preferences.

The beverage industry has been challenged by rising demand for noncarbonated drinks in recent years as consumers have become more health conscious. Where the beverage industry once relied on a limited number of products, it has become a multiple product industry.

**CHART 8A: CANDY/SNACK/CONFECTION MACHINES, 4-YEAR REVIEW**

	2004	2005	2006	2007
Projected Total	1,328,670	1,328,760	1,328,760	1,328,760

**CHART 8B: TOTALS BY CATEGORY AND SUBCATEGORY**

	% REVENUE CHANGES	PROJECTED REVENUE	% SALES OF TOTAL	SHARE CHANGES FROM 2006
<b>CANDY</b>	<b>-1.39%</b>	<b>\$1.527B</b>	<b>34.63%</b>	<b>-0.37%</b>
Chocolate candy	-1.00	1.054	23.90	-0.36
Gum	-1.34	0.077	1.76	-0.25
Mint/hard roll	-4.50	0.042	1.00	-0.03
Non-chocolate/toffee	5.74	0.350	7.90	0.20
<b>SNACKS</b>	<b>3.00%</b>	<b>\$2.883B</b>	<b>65.37%</b>	<b>3%</b>
<b>NUTRITION SNACKS</b>	<b>11.88%</b>	<b>0.113</b>	<b>2.57</b>	<b>21.00</b>
Breakfast bars	22.00	0.010	0.023	0.04
Cereal	negligible	negligible	0.00	0.00
Fruit snacks	0.00	0.043	1.00	0.00
Functional bars	negligible	negligible	0.00	0.00
Granola bars	-72.30	0.028	0.06	-2.29
Rice cakes	100.00	0.006	0.001	0.00
Trail mix	-7.75	0.024	0.05	-2.45
<b>BAKED GOODS</b>	<b>-1.30%</b>	<b>\$0.834B</b>	<b>18.90%</b>	<b>-0.22%</b>
Cakes/brownies	120.00*	0.011	0.02	0.07
Cereal snacks	8.90	0.061	1.38	0.09
Crème-filled cakes	-16.00	0.047	1.00	-0.30
Danish	-75.60	0.021	0.04	-1.96
Donuts/gems	-11.60	0.038	0.08	-0.92
Honey buns	17.65	0.060	1.37	0.17
Misc. baked goods	0.08	0.113	2.56	-0.04
Muffins	50.00	0.006	0.10	0.00
Pies	12.50	0.009	0.20	0.00
Regular cookies	4.70	0.287	6.51	0.14
Sandwich cookies	11.80	0.124	2.81	0.06
Sweet rolls	34.21	0.051	0.01	-0.08
Unfilled cakes	-62.50	0.003	0.00	0.00

\*Cakes and brownies recovered share after big dip in 2006

The proliferation of beverage products has expanded the distribution, sales and marketing requirements, bringing new costs to be shared by all channels, including vending.

According to Beverage Digest, carbonated sales in the U.S. fell by 2.3 percentage points in 2007, its biggest 1-year decline in many years. Given the fact that carbonated drinks commanded the largest share of beverage volume by far (63.7 percent), the decline hurt manufacturers' profits, which resulted in higher prices.

Beverage manufacturers added non-carbonated offerings in 2007, continuing a trend from previous years.

According to Beverage Digest, all channel volume of non-carbonated beverages rose 6.4 percent in 2007, continuing a trend of more than a decade. Vending operators were slower than other retailers to capitalize on non-carbonated beverages since vending machines have much less capacity to sell variety.

The introduction of glassfront beverage machines in recent years has enabled the vending industry to catch up with other retail channels in selling noncarbonated offerings, but glassfronts continued to remain a small percentage of machines, as indicated in chart 7a.

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	% REVENUE CHANGES	PROJECTED REVENUE	% SALES OF TOTAL	SHARE CHANGES FROM 2006
<b>CRACKERS</b>	<b>0.00%</b>	<b>\$0.258B</b>	<b>5.80%</b>	<b>-0.20%</b>
Regular crackers	50.60	0.150	3.41	5.26
Sandwich crackers	8.00	0.107	2.44	1.59
<b>FOOD SNACKS</b>	<b>-0.70%</b>	<b>\$0.023B</b>	<b>0.05%</b>	<b>-0.65%</b>
Meat snacks	-26.67	0.022	0.05	-12.47
Meat and cheese	negligible	0.001	0.02	75.00
<b>NUTS AND SEEDS</b>	<b>5.97%</b>	<b>\$0.071B</b>	<b>1.60%</b>	<b>0.03%</b>
Almonds	negligible	negligible	0.00	0.00
Cashews	25.00	0.005	0.10	0.00
Mixed nuts	-75.00	0.001	0.03	-0.07
Peanuts	6.38	0.061	1.40	0.05
Pistachio nuts	negligible	negligible	0.00	0.00
Pumpkin seeds	negligible	negligible	0.00	33.23
Sunf over seeds	negligible	0.003	0.07	-5.65
<b>SALTY SNACKS</b>	<b>4.56%</b>	<b>\$1.582B</b>	<b>35.89%</b>	<b>0.74%</b>
Cheese curls	4.80	0.240	5.46	4.27
Corn/tortilla chips	0.70	0.440	9.90	4.08
Onion rings	52.38	0.032	0.70	100.00
Popcorn	-6.25	0.060	1.36	6.95
Potato chips	11.94	0.403	9.14	-0.17
Potato sticks	negligible	negligible	0.00	0.00
Pretzels	11.66	0.182	4.13	-0.83
Snack mix	-11.69	0.068	1.54	-0.80
Misc. salty snacks	negligible	0.155	3.52	30.18

Glassfront rollouts accelerated in 2007, but the majority were provided by bottlers, which restricted product variety for vending operators. The major bottlers did not offer the top selling energy drinks, a small but rapidly growing category.

Glassfronts also required more frequent servicing because the machines have less capacity than the older closed front machines. While the improved merchandising typically boosts sales, higher sales are necessary to cover higher labor costs.

**CHART 8C: TOP 20 CANDY/SNACK/CONFECTIONS IN DOLLAR SALES, 4-YEAR REVIEW**

#	PRODUCT	AVERAGE SELLING PRICE			
		2004	2005	2006	2007
1	MASTERFOODS USA 2-OZ. SNICKERS ORIGINAL	66¢	67¢	70¢	73¢
2	MASTERFOODS USA 1.74-OZ. M&M'S PEANUT	67	67	71	73
3	FRITO-LAY 1.75-OZ. DORITOS NACHO CHEESIER BIG GRAB	76	76	78	79
4	FRITO-LAY 2.125-OZ. CHEETOS CRUNCHY	76	76	79	80
5	MASTERFOODS USA 2-OZ. TWIX BAR	67	67	71	73
6	KELLOGG/KEEBLER 1.5-OZ. CHEEZ-IT ORIGINAL	52	52	55	57
7	KELLOGG/KEEBLER 3.6-OZ. POPTARTS FROSTED STRAWBERRY	79	77	81	84
8	MASTERFOODS USA 2.17-OZ. SKITTLES	70	70	74	76
9	FRITO-LAY 1.5-OZ. LAY'S CHIPS	75	74	76	77
10	KELLOGG/KEEBLER 1.7-OZ. RICE KRISPIES TREAT	68	70	74	77
11	MASTERFOODS USA 2.13-OZ. THREE MUSKETEERS ORIGINAL	65	66	68	71
12	FRITO-LAY 1.5-OZ. RUFFLES CHEDDAR & SOUR CREAM	NA	NA	NA	71
13	MRS. FRESHLEY'S 4.5-OZ. JUMBO HONEY BUN	NA	73	77	81
14	FRITO-LAY 2.25-OZ. FRITOS CHILI CHEESE	73	73	76	77
15	MASTERFOODS USA 1.69-OZ. M&M'S MILK CHOCOLATE	66	67	70	72
16	HERSHEY 2.25-OZ. REESE'S PEANUT BUTTER CUPS	NA	NA	1.04	1.05
17	HERSHEY 1.5-OZ. REESE'S PEANUT BUTTER CUPS	65	74	76	72
18	KELLOGG/KEEBLER 2-OZ. FAMOUS AMOS CHOCOLATE CHIP COOKIES	67	65	68	71
19	FRITO-LAY 3-OZ. FRITOS	73	73	76	77
20	FRITO-LAY 1.125-OZ. CHEETOS CRUNCHY	54	54	59	59

**CANDY, SNACKS AND CONFECTIONS FACE RESISTANCE**

The candy, snack and confection segment posted its second consecutive revenue gain in 2007, but the 2.4-point increase felt short of the industry's total revenue gain as operators felt constrained by competitive pressures to raise prices.

Chart 8c indicates that operators raised prices in middle single digits on almost all of the top 20 selling candy/snack items; average prices rose on all but two of the top 20 sellers.

Most operators did not feel that the price increases allowed them to improve profits in this segment since manufacturers continued to raise prices for the second year in a row.

Candy continued to lose market share to snacks for the second straight year in 2007, based on data provided by Management Science Associates Inc. Candy's market share fell 1.39 points in 2007, following a 0.09-point drop in 2006.

Vending operators attempted to reduce candy offerings in response to manufacturer price increases in both 2006 and 2007. Operators placed snack products packaged to fit in candy spirals.

Some observers noted that the strategy hurt total candy/snack sales since candy items historically turn faster.

**CHART 8D: CANDY/SNACK/CONFECTIONS GAINING THE MOST DISTRIBUTION IN 2007**

#	PRODUCT
1	Frito-Lay 1.5-oz. Cinnamon SunChips
2	Frito-Lay 1-oz. Smokin' Cheddar BBQ
3	Quaker 0.91-oz. Mini Rice Cakes Carmel Corn
4	Frito-Lay 1.31-oz. Munchos
5	Snyder's of Hanover 1.5-oz. Nibbler Pretzels Honey Mustard
6	Frito-Lay 1.75-oz. Sonic Sour Cream
7	Wise 1.5-oz. Honey BBQ Chips
8	Zapps Potato Chip 1.5-oz. Potato Chips
9	Poore Brothers 1-oz. Burger King Ketchup Fries
10	Hershey 1.8-oz. Payday Chocolate
11	General Mills 1.65-oz. Chex Mix Chocolate Turtle
12	Snyder's of Hanover 0.62-oz. Buttered Popcorn
13	Masterfoods USA 2-oz. Twix Bar
14	Kellogg Keebler 1-oz. Pecan Sandies
15	Poore Brothers TGI Friday's 1-oz. Cheddar & Bacon Potato Skins

**CHART 8E: NUMBER OF NEW CANDY/SNACK/CONFECTION PRODUCTS INTRODUCED TO VENDING**

2004:	159	2005:	206	2006:	181	2007:	147
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Source: Management Science Associates Inc. ProVen data.

All candy categories lost market share in 2007 with the exception of non-chocolate and toffee candy, a small category.

Snacks, by contrast, continued to gain market share. Among snack categories, only granola bars and trail mixes lost market share in 2007.

MSA Inc. reported that among the top 15 candy/snack distribution gainers, all but two were snacks, as shown in chart 8d. The two candy items were ranked 10 and 13.

Large size candy bars, also known as “dollar candy,” did not generate a lot of activity. Candy manufacturers introduced large size candy bars in 2004 in an attempt to provide more value for the consumer. Manufacturers promoted the larger size options by not raising prices for larger size bars.

MSA Inc. found that large size candy bars lost more than three percentage points in market share in 2007, translating into a double digit retail sales decline.

Hershey 2.25-ounce Reese’s Peanut Butter Cups was the only large size candy bar among the top 20 sellers. The item fell from the number 12 spot in 2006 to number 16 in 2007.

Some operators found larger size candy bars a way to minimize customer resistance to higher candy prices, but overall, operators did not perceive a big demand for these products. Operators were also hesitant to offer larger portions as customers continued to ask for healthier options.

**NUTRITIONAL SNACKS IMPROVE**

Snacks identified as “nutritional” performed better in 2007 than in 2006, an indication that consumer response to wellness products is beginning to improve. Vending operators have long observed that consumers do not buy “better for you” products in vending machines, despite widespread public support for healthier products.

In 2007, as indicated in chart 8b, “nutrition snacks” increased 11.88 points. Nuts and seeds, which also have a healthy connotation, also increased sales in 2007.

Operators noted that the variety, quality and packaging of “better for you” snacks improved in recent years. One reason is that government mandates for healthier products, especially in schools, built a bigger demand for these products. Most of these mandates took effect in 2006.

Another reason operators offered for improved sales of “better for you” products is aggressive consumer advertising by manufacturers.

Operators noted that in accounts that restricted traditional candy and snack items, such as schools, sales eventually improved as customers became used to the “healthier” offerings. But sales did not usually approach their previous levels, operators noted.

**CHART 9A: HOT BEVERAGE MACHINES, 4-YEAR REVIEW**

	2004	2005	2006	2007
<b>Total</b>	<b>345,000</b>	<b>344,000</b>	<b>343,000</b>	<b>341,000</b>

**CHART 9B: HOT BEVERAGE SALES, 4-YEAR REVIEW**

<b>% OF SALES</b>				
TYPE	2004	2005	2006	2007
Fresh-brew regular	49.40%	45.11%	47.08%	46.34%
Fresh-brew decaf	4.80	9.68	4.99	4.11
Fresh-brew specialty/f avored	12.10	8.37	10.17	10.58
Freeze-dried regular	11.70	7.42	4.99	4.15
Freeze-dried specialty	3.50	5.16	8.75	11.60
Tea	1.60	1.47	2.37	3.36
Hot Chocolate	10.80	13.26	13.24	11.12
Soup	1.40	0.79	2.51	2.72
Other	4.70	8.74	5.88	6.02

**PROJECTED TOTALS**

TYPE	2004	2005	2006	2007
Fresh-brew regular	\$513.7M	\$473.6M	\$488.2M	\$483.8M
Fresh-brew decaf	49.92	101.60	51.74	42.90
Fresh-brew specialty/f avored	125.84	87.88	105.46	110.50
Freeze-dried regular	121.68	77.70	51.74	43.40
Freeze-dried specialty	36.40	54.12	90.74	121.10
Tea	16.64	15.43	24.57	35.10
Hot Chocolate	112.32	139.23	137.29	116.10
Soup	14.56	8.29	26.02	28.40
Other	38.48	91.77	60.97	64.70

**CHART 9C: AVERAGE HOT BEVERAGE PRICES, 4-YEAR REVIEW**

TYPE	2004	2005	2006	2007
Fresh-brew regular	48¢	49.6¢	53¢	53¢
Fresh-brew decaf	49	59.6	48	53
Fresh-brew specialty/f avored	65	61.3	59	63
Freeze-dried regular	40	48	48	52
Freeze-dried specialty	41	54.5	56	62
Tea	54	44	48	51
Hot Chocolate	51	50	51	53
Soup	45	46	60	53

CONTINUED ▶

While operators welcomed any improvement in consumer response, the top selling products continued to be the traditional items. The top 15 items to gain distribution in 2007 only included one item with a “better for you” connotation, Snyder’s of Hanover’s 1.5-ounce Honey Mustard Nibbler Pretzels.

**HOT BEVERAGES STRUGGLE**

The hot beverage segment continued the decline that began in the early 1990s when the nation’s manufacturing base began shedding jobs. The prosperity of the middle and late 1990s did not benefit hot beverage vending as much as OCS since most of the economic growth came from white collar locations.

Vending operators removed hot beverage machines over the years. In some cases, the hot beverage vending was replaced by coffee service.

In 2007, hot beverage sales fell slightly as a percent of sales, but revenue slightly increased on account of higher prices.

In 2007, vending operators raised hot beverage prices more than they did in 2006, with the exception of regular coffee, which stayed flat.

Higher pricing for specialty coffee accounted for some of the rise in specialty coffee sales. The rise was due to consumer demand for specialty coffee.

Vending operators have not, as a whole, invested in the latest state-of-the-art equipment that allows more variety, better quality products and more modern aesthetics. This is mainly due to the high cost of the equipment and the decline in work site populations necessary to justify such an investment.

In all fairness, however, even those vending operators who made the necessary investment to offer the latest and greatest in hot beverage vending reported mixed results. In some cases, operators reported improved usage as a result of offering better quality coffee, more variety and more modern looking machines. In other cases, these presentations did not bring improvement.

There were several explanations as to why some attempts did not succeed.

The most obvious being that competition from retail foodservice is simply too strong. Specialty coffee houses, quick serve restaurants and convenience stores collectively invested millions of dollars in recent years to upgrade quality and advertise aggressively. These initiatives have transformed consumer perception of foodservice coffee.

Another reason is that the vending industry’s attempts to upgrade hot beverage presentation has been collectively

**CHART 10A: FOOD MACHINES, 4-YEAR REVIEW**

TYPE	2004	2005	2006	2007
Refrigerated	141,500	140,000	138,500	137,000
Frozen*	48,500	51,000	54,300	57,300
Heated	1,500	1,500	1,500	1,500
Ambient	800	800	800	800
Food systems (pizza, french fries)	2,500	2,900	3,100	3,300
<b>TOTAL</b>	<b>194,800</b>	<b>196,200</b>	<b>198,200</b>	<b>199,900</b>
Frozen food machines as a percent of total	24.80%	25.90%	27.40%	28.66%

\* Most were also used for ice cream.

**CHART 10B: FOOD MACHINE SALES, 4-YEAR REVIEW**

% OF SALES				
TYPE	2004	2005	2006	2007
Freshly-prepared	26.7%	30%	28%	27%
Frozen-prepared	57.1	57	57	58
Shelf stable	16.2	13	15	15

PROJECTED SALES				
TYPE	2004	2005	2006	2007
Freshly-prepared	\$352M	\$407M	\$378.5M	\$369.6M
Frozen	753	773	770.6	794.0
Shelf stable	213	176	202.8	205.4

**CHART 10C: VEND FOOD PRICES, 4-YEAR REVIEW**

TYPE	2004	2005	2006	2007
Freshly-prepared	\$1.80	\$1.90	\$1.93	\$1.96
Frozen-prepared	1.72	1.85	1.86	1.88
Shelf stable	1.36	1.67	1.71	1.83

insufficient enough to influence customer perception. Hence, the occasional state-of-the-art hot drink machine doesn’t register since there are too few such impressions to begin with.

**VEND FOOD STRUGGLES**

Vend food, a business that is similar in many ways to vend coffee, posted a moderate 1.2-point gain in 2007 that was well below that of the overall industry. The NAMA Operating Ratio Report also reported a moderate gain in this segment.

The challenged state of vend food reflected the continued stagnation of larger locations.

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**CHART 10D: TOP 20 FROZEN FOOD PRODUCTS IN 2007, DOLLAR SALES**

#	PRODUCT
1	White Castle Distributing White Castle Twin Cheeseburger
2	Pierre Foods Big AZ Beef Charbroil With Cheese
3	Pierre Foods Buffalo Style Wings
4	Nestle Hot Pockets Pepperoni Pizza
5	Don Miguel Mini Beef Tacos
6	Best Express Foods Oscar Mayer Lunchables Turkey & Cheddar
7	Pierre Foods Bacon Cheeseburger
8	Schwan Foods Tony's Pepperoni Pizza
9	Pierre Foods A-1 Chopped Beefsteak Sandwich
10	Pierre Foods Big AZ Bubba Twin Chili Dogs With Cheese
11	Nestle Hot Pockets Ham & Cheese
12	Pierre Foods Fast Choice Double Beef Stacker With Cheese
13	Jimmy Dean Foods Rudy's Farm Sausage Twin Biscuit
14	Pierre Foods Jumbo Cheeseburger
15	Pierre Foods Barbecue Wings
16	Jimmy Dean Foods Sausage Twin Biscuit
17	Best Express Foods Oscar Mayer Lunchables Ham & Cheddar
18	Sara Lee Hillshire Farms Bagel Cheddarwurst
19	Nestle Hot Pockets Meatball Mozzarella
20	Schwan's Foods Tony's Supreme Pizza

**CHART 10E: TOP 20 REFRIGERATED FOOD PRODUCTS IN 2007, DOLLAR SALES**

#	PRODUCT
1	Kraft Foods Oscar Mayer Turkey/Cheddar Lunchables
2	Kraft Foods Oscar Mayer Ham/Cheddar Lunchables
3	Kraft Foods Oscar Mayer Ham/Swiss Lunchables
4	General Mills Yoplait Strawberry Yogurt
5	General Mills Yoplait Strawberry/Banana Yogurt
6	Nestle Nesquik Strawberry Milk Shake
7	Nestle Nesquik 16-oz. Double Chocolate PET
8	Nestle Nesquik Strawberry Milk Shake
9	Kraft Foods Oscar Mayer Nacho Lunchables
10	Kraft Foods Breyer's Fruit On Bottom Strawberry Yogurt
11	Kraft Foods Oscar Mayer Bologna & American Lunchables
12	Kraft Foods Breyer's Fruit On Bottom Black Cherry
13	Kraft Foods Breyer's Fruit On Bottom Strawberry/Banana Yogurt
14	Kraft Foods Breyer's Fruit On Bottom Berry Mix
15	Kraft Foods Breyer's Fruit On Bottom Blueberry
16	Kraft Foods Breyer's Fruit On Bottom Red Raspberry
17	Kraft Foods Breyer's Fruit On Bottom Peach
18	Kraft Foods Philadelphia Cream Cheese
19	Nestle Nesquik 1% Milk Chocolate
20	Dannon Yogurt Strawberry Banana Fruit Bottom

Source: Vendchannel, 800-999-4271

As with hot beverage machines, food machines are more expensive and service intensive than soda and snack machines, meaning operators need large locations to justify the investment.

As with other product segments, much of the growth was driven by price increases, although the price increases were not significant, as indicated in chart 10c.

Vending operators usually find it easier to raise food prices than other prices since most vend food products are not found in other retail channels where they would invite price comparisons. Operators also have more flexibility with food products since the category isn't ruled by specific "core" items like the snack and soda segments.

However, in 2007 declining consumer confidence took its toll on all foodservice channels. Operators unanimously reported more "brown bagging" as consumers grew more budget conscious.

Frozen prepared food gained a percentage point at the expense of freshly-prepared food in 2007.

One factor supporting the growth of frozen prepared food was the continued increase in frozen food machines, along with the steady decline in refrigerated food machines.

Operators found that frozen food allows them to provide food without having to service the location as frequently since the frozen machine eliminates spoils.

At the same time, however, operators continued to believe that fresh food is one of the few areas that allows them to distinguish themselves from the competition.

The decline in freshly-prepared food, which typically fetched higher price points, served to restrain total food sales. The survey once again confirmed this, as indicated in chart 10b.

For fresh food, consumers based purchase decisions more on quality than other considerations – packaging, brand name, reheat time and expiration date.

For frozen-prepared food, brand name was the most important factor.

Integrated food systems grew for the fifth consecutive year in 2007. These systems keep food in a frozen state and reheat it at the point of sale. While expensive and service intensive, it meets the needs of consumers eating on the run in high traffic locations.

**MANUAL FOODSERVICE GROWS**

The steady growth in manual foodservice among vending operators largely reflected the continued dominance of the extra large operators, almost all of whom were active in manual feeding.

Managed services, also referred to as on-site foodservice for industrial plants, office buildings, health care facilities, schools and recreation centers, posted a composite annual growth rate of 6.1 percent from 2005 to 2008, according to The National Restaurant Association. This indicates that vending operators active in this category were involved in a segment growing faster than vending.

Like fresh food vending, manual foodservice offers an operator an area of marketplace distinction. It offers even more opportunities to be creative in food presentation.

However, the competition among operators limits how much they can raise prices and hold onto customers.

Vending operators active in manual feeding found themselves competing with dedicated manual foodservice companies. As with any business, dedication oftentimes strengthens performance.

Manual foodservice is also more labor intensive than vending.

*Automatic Merchandiser* tracks only manual food sales for companies that also provide vending, which does not include the majority of manual foodservice providers.

#### MILK CONTINUES TO GROW

Milk continued to grow in 2007, largely due to its perception as a healthy product. The dairy industry continued to promote milk's benefits to the public through an aggressive consumer advertising campaign.

Milk sales increased every year for the past six years in all retail channels, according to the Beverage Marketing Corp., which tracks beverage trends.

Vending operators increased their milk prices more in 2007 than in the previous two years, as indicated in chart 11c.

The percentage of milk sold in cold beverage machines rose slightly in 2007 at the expense of refrigerated food machines. This might have been driven by the increase in glassfront beverage machines.

Extended shelf life milk offerings gave vending operators more choices in recent years. However, the majority of operators continued to source local dairies for most of their milk, as indicated in chart 12b.

Many vending operators found that local dairies provided better pricing than branded, extended shelf life products, even though the latter type featured nationally known brands and had the added benefit of not requiring temperature-controlled transport and warehousing.

Operators serving schools with strict beverage restrictions often found milk a popular substitute among children.

#### CHART 11A: MILK SOLD BY MACHINE TYPE, 4-YEAR REVIEW

% OF SALES				
TYPE	2004	2005	2006	2007
Dedicated milk	18.3%	20%	18%	18%
Cold beverage	30.2	33	28	32
Shelf stable	51.4	47	54	50

#### PROJECTED SALES

TYPE	2004	2005	2006	2007
Dedicated milk	\$59.24M	\$70.0M	\$64.8M	\$66.78M
Cold beverage	96.94	115.5	100.8	118.72
Refrigerated food	164.48	164.5	194.4	185.50

#### CHART 11B: DEDICATED MILK MACHINES, 4-YEAR REVIEW

	2004	2005	2006	2007
Total	56,000	58,000	56,000	56,000

#### CHART 11C: MILK PRICES, 3-YEAR REVIEW

TYPE	2005	2006	2007
Traditional gable cartons	64.4¢	64¢	71¢
Plastic bottles	\$1.02	\$1.02	\$1.05

#### ICE CREAM INCREASES

Ice cream held its own with a 3-point gain in 2007, as the category continued to benefit from the steady increase of frozen food machines, many of which also vended ice cream.

The revenue gain did not rely as much on price increases for ice cream as it did in other categories as operators found it difficult to raise prices.

The segment continued to benefit from improved distribution. The first nationwide distribution for vend ice cream was established in 2005, making ice cream more accessible to more operators.

Much of the ice cream business was handled by dedicated specialists. Many full line vending operators preferred to subcontract the ice cream business to specialists due to the temperature requirements involved.

Some operators introduced remote machine monitoring to ice cream machines in 2007, seeing it as a way to prevent costly melt downs. Remote monitoring systems alert operators quickly about machine malfunctions.

Dedicated ice cream specialists were able to increase machine placements in public locations and retail accounts. In some cases, vending management companies helped place these machines.

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A man in a dark suit and a pink striped tie is smiling broadly. He is holding a large glass of milk in his right hand, which is in the foreground. The background is a bright green color with a pattern of white, stylized sunburst or floral designs. The text "GREAT FOR HIS CUSTOMERS' TASTE BUDS. AND HIS SALES BUDS." is printed on the glass of milk.

**GREAT FOR HIS  
CUSTOMERS'  
TASTE BUDS. AND  
HIS SALES BUDS.**

Mike Brown, *VP Operations,*  
PGI Services

Want a delicious, healthy way to add delicious, healthy sales? Ask Mike Brown. He added just a few slots of vended milk to his line-up and easily boosted his current machine sales in business locations, airports and malls. And he nearly doubled the amount of business he was doing in schools. So can you, because adding milk adds sales in just about every location. Read other milk success stories and learn more now, at [milkdelivers.org](http://milkdelivers.org).



got milk?<sup>®</sup>

**MilkPEP<sup>®</sup>**  
Milk Processor Education Program

**CHART 13A: ICE CREAM SALES, 4-YEAR REVIEW**

	2004	2005	2006	2007
Total	\$230M	\$328M	\$338M	\$348M

**CHART 13B: ICE CREAM BY MACHINE TYPE, 4-YEAR REVIEW**

% OF SALES				
TYPE	2004	2005	2006	2007
Combination food/ice cream	50.8%	48%	47%	47%
Old style, 3- and 4-select	10.3	11	10	10
Dedicated, new style multi-product	34.8	37	40	40
Dual temperature machine	4.1	4	3	3

**PROJECTED SALES**

TYPE	2004	2005	2006	2007
Combination food/ice cream	\$116.8M	\$157.4M	\$158.9M	\$163.6M
Old style, 3- and 4-select	23.7	36.1	33.8	34.8
Dedicated, new style multi-product	80.8	121.4	135.2	139.2
Dual temperature machine	9.4	12.1	10.1	10.4

The public access and retail locations typically required high commissions, however.

Consumer demand for ice cream was not a big driver in 2007. According to Packaged Facts, a research firm, U.S. retail ice cream sales dropped 0.3 points.

Frozen yogurt, by contrast, posted a 12-point gain in 2007, Packaged Facts reported.

Hence, the vending industry was not positioned to take advantage of consumer preferences for frozen desserts in 2007.

Analysts postulated that frozen yogurt benefited from its association as a healthier product than ice cream.

Machines that prepare ice cream on site from frozen balls continued to expand in 2007, having been introduced in 2006. These systems use liquid nitrogen to flash freeze ice cream into frozen beads in seconds.

Soft serve ice cream vending machines, which have existed in Europe for several years, were also introduced in the U.S. 2007.

**OCS MOVES ALONG**

OCS was one of the best growth areas for vending operators in 2007, posting a 5.2-point 1-year gain, as vending

**CHART 13C: DEDICATED ICE CREAM MACHINES, 4-YEAR REVIEW**

	2004	2005	2006	2007
	55,935 <sup>1</sup>	57,935 <sup>2</sup>	60,935 <sup>3</sup>	62,770 <sup>4</sup>

<sup>1</sup> Of 48,500 frozen food machines in 2004, 37,100 are included in this number.

<sup>2</sup> Of 51,000 frozen food machines in 2005, 39,000 are included in this number.

<sup>3</sup> Of 54,300 frozen food machines in 2006, 42,000 are included in this number.

<sup>4</sup> Of 57,300 frozen food machines in 2007, 44,121 are included in this number.

**CHART 13D: ICE CREAM PRICES, 4-YEAR REVIEW**

TYPE	2004	2005	2006	2007
Ice cream	\$1.09	\$1.14	\$1.15	\$1.15
Frozen confections	1.12	1.27	1.27	1.00

operators took advantage of the rising popularity of high quality coffee.

For the first time ever, OCS sales eclipsed hot beverage vending sales in 2007, which marked the fourth straight year for growth in this category. Operators were able to grow OCS more than hot beverage vending because the investment required is less, as is the population needed. Vending operators active in OCS were able to take advantage of better quality OCS tools to grow OCS sales.

The survey found that OCS was the leading new service offered in 2007, cited by 35 percent of operators who added new services.

Declining consumer confidence did not impede OCS sales as much as vending sales. This was because the service is not paid for by consumers.

Location managers recognized the benefit that OCS provides as an employee motivator. The economic environment enhanced the value of OCS to both the end user (consumer) and the location manager.

Hence, vending operators found less customer resistance to higher OCS prices than higher vending prices.

The *Automatic Merchandiser* State of the OCS Industry Report, published in July, included sales of dedicated OCS operators while the State of the Vending Industry Report includes vending operators' OCS sales.

The two reports measured different 1-year periods; the OCS report included the last half of 2007 and the first half of 2008 while the vending report tracked only 2007.

**2008 BRINGS MORE CHALLENGES**

The operating environment became even more challenging in 2008 as product manufacturers continued to raise

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prices, fuel prices kept rising and locations laid off more employees. By mid year, many economists characterized the economy as being in a recession.

How much fuel prices continue to rise will affect consumer spending. Besides forcing consumers to spend more on gasoline, the higher costs translates into higher prices for almost all consumable goods. In particular, higher petroleum prices bring higher heating bills. The Energy Information Administration predicted an 11 percent jump in home heating costs in 2008.

The Labor Department reported that the nation's unemployment rate hit 5.5 percent in May, the biggest monthly increase since 1986, as employers cut 49,000 jobs in that month alone.

The rise in unemployment wasn't completely unwelcomed by vending operators who have long struggled to find good workers. The ranks of the unemployed included many workers with marketable skills from other industries.

The rising unemployment carried one negative side effect, however: more vending startups. As typically happens in recessions, more people were looking to get into the vending business. New, inexperienced operators typically offer lower prices in their zeal to gain customers.

As economic indicators became more negative, the impact took its toll on consumer confidence, which hurt all retailers.

One year ago, some vending operators claimed that rising food and fuel prices were encouraging more employees to eat in the cafeteria rather than go out for lunch. This year, most operators, when asked, say more employees are brown bagging.

By mid year, there were signs that the economy was changing consumers' shopping habits in ways that would likely affect vending.

A study by Information Resources Inc. found a reversing of decades-long trends, shunning convenience and healthier foods in search of bargains. These tendencies hold mixed implications for automatic merchandising: vending's key benefit in most consumers' minds is convenience.

While a stronger focus on price might benefit vending, the tendency to shun convenience does not.

The Information Resources survey found 53 percent of consumers reported cooking from scratch more than they were six months earlier, about 59 percent were buying fewer single-serving products, and 55 percent said they were buying fewer prepared meals. These changes could present new challenges to an industry that already faces more than its fair share.

## 2007: Vending holds its own against overall foodservice

**In comparison to overall foodservice, the vending industry's 2007 performance appears less dismal. The vending industry managed to sustain its revenue growth better than overall foodservice for the first time in several years. This indicates that the vending industry's focus on profitability is bearing some results.**

**The National Restaurant Association reported overall foodservice sales rose 4.6 percent in 2007, which was slightly less than the previous year. Quick-service restaurants, which posted a 5-point sales gain in 2006, only increased sales 4.5 points in 2007.**

*Automatic Merchandiser* reported in the past two years that the vending industry has been slower than other foodservice channels to adapt to a service economy, which was why it did not match the overall foodservice industry's growth in previous years. In 2007, the service economy began experiencing the downsizing that the manufacturing sector suffered for the past two decades.

For the past decade, the food industry has focused on meeting the dual challenge of providing high quality, nutritious food, conveniently. But based on the new findings, the food industry needs to rethink its mission. The economy has dealt a serious blow to consumer confidence, making price more important.

The challenged operating environment makes it harder for vending operators to make big investments with long-term payoff such as credit card readers and remote monitoring. The competitive retail climate, however, will not wait.

The operating climate continues to challenge vending operators like never before. Operators continue to face rising costs with limited opportunities for growing sales in an increasingly competitive market. Vending operators continue to lose sales to other retail segments that are adapting to a changing consumer.

For vending operators to meet consumer needs, they have no choice but to invest in technologies that will allow them to provide better service. In the end, the consumer's perception of vending will more closely match the capabilities that new technology can provide. | ◀