

Recession drives profit protection initiatives

With rising unemployment hurting sales in 2008, vending operators engaged in a host of recovery initiatives, including staff reductions, price increases and business diversification.

By Elliot Maras, Editor

Automatic merchandising has often been described as a bellwether industry for the U.S. economy. When the economy is strong, vending and coffee service thrive as employers rely on refreshment service providers to sustain employee productivity. When the economy suffers, so does demand for refreshments in the work place.

The recession that began in 2007 and got progressively worse through 2008 has been described by many as a depression, with unemployment rising to unusual highs, consumer confidence hitting record lows and, as of August 2009, little sign of improvement.

Automatic merchandising, which never fully recovered from the “dotcom” implosion of the late 1990s, suffered heftier doses of work site downsizing, rising costs, consumer resistance to higher prices, and limited growth opportunities. The “mortgage meltdown” that struck in September of

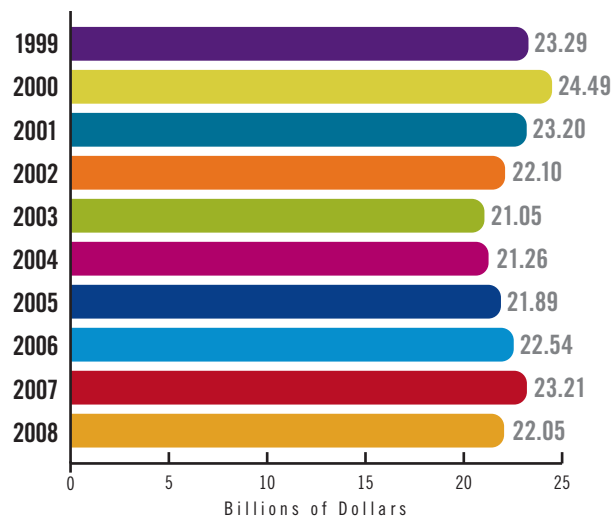
2008 chipped the financial foundations of hundreds of thousands of businesses, spurring layoffs in almost all industries.

Automatic merchandising revenues slid 5 percentage points in 2008, ending a 4-year growth trend and returning to the 2003 level of \$22.05 billion, according to the 2009 *Automatic Merchandiser* State of the Vending Industry Report, which is based on an online survey. The biggest losses came in the second half of 2008, as the unemployment gradually rose, hitting 7.2 percent in December.

By November of 2008, more than 1.9 million jobs had been lost and consumer confidence fell to record lows. The 7.2 percent unemployment in December of 2008 marked a significant 1-year change in national employment. Job losses were broad-based, with the manufacturing, construction, retail, financial service and business service sectors posting substantial declines. Only the health care and government sectors added jobs.

Vending losses were largely due to work site downsizing, which vending operators themselves were forced to do in their own operations to protect their profitability.

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



VENDING FACES ONGOING CHALLENGES

The rising unemployment and fallout in consumer confidence which gripped many industries in 2008 contributed to some larger challenges that the vending industry has struggled with for decades. Namely, the shifting of the nation’s work force from blue collar industrial jobs to white collar and “pink collar” service jobs.

Some observers claim negative consumer perception of vending prevented operators from capitalizing on a “trading down” trend that convenience stores and, to a lesser extent, fast food restaurants were able to do in 2008.

Consumers, in order to reduce expenditures, bought more food and refreshments at convenience stores and fast food restaurants rather than full-serve restaurants to

save money. Data from food industry associations confirms that convenience stores and fast feeders outperformed the overall foodservice industry, which had one of its weakest years in 2008 with a 3.3 percentage point revenue growth, according to the National Restaurant Association (NRA).

Fast food restaurants, a competitive channel for vending and onsite foodservice, posted a 4.4 percent sales gain in 2008, outpacing the overall foodservice industry. The NRA noted that on an inflation-adjusted bases, fast food sales were flat, posting their weakest performance since 2002.

Convenience stores outperformed all other foodservice sectors in 2008, boosting sales by 8.1 percentage points, according to the National Association of Convenience Stores (NACS).

While many vending operators believe their industry's long-term challenges are more serious than the current recession, a widespread consumer reluctance to spend money in all retail outlets certainly contributed to vending sales declines in 2008.

OPERATORS RESPOND IN VARIOUS WAYS

Vending operators responded to the challenge with a variety of actions, as indicated in chart 6, the most frequent being raising prices. Fiscal 2008 witnessed the second consecutive year of aggressive price increases. In 2008, operators raised prices in all product segments, as indicated in the charts in this report.

Operators noted that raising prices in 2008 was less difficult than in prior years since customers recognized food prices were rising in other retail channels. Wholesale

food prices rose 8 percent in 2008 following a 7.6 percent rise in 2007, according to the NRA, marking the largest 1-year gain in three decades.

Many operators found it helped to provide customers notices of price increases from product manufacturers. In the case of coffee price increases, operators could provide copies of newspaper reports about these increases.

While operators found it easier to convince account decision makers to let them raise prices in 2008 than in previous years, consumers — the end users — were not as accepting of the increases, even when similar products were priced higher in other retail channels. Most operators noticed that higher prices usually resulted in lower sales for several weeks and longer.

CONTINUED ►

CHART 2: OPERATOR SALES

Size	Revenue range	% of 2008 Operators	Projected 2008 sales	% of 2008 sales	Projected 2007 sales	% of 2007 sales
Small	under \$1M	75%	\$1.26B	6%	\$1.06B	4.8%
Medium	\$1M to \$4.9M	17%	1.89B	9%	2.38B	10.8%
Large	\$5M to \$9.9M	5%	2.72B	13%	2.65B	12%
Extra large	\$10M +	3%	15.08B	72%	15.96B	72.4%
TOTAL			\$20.95 BILLION*		\$22.05 BILLION*	

*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.

CHART 3: MACHINES BY LOCATION, 4-YEAR REVIEW

- Manufacturing
- Hotels/motels
- Retail sites
- Schools, colleges
- Correctional facilities
- Offices
- Restaurants, bars, clubs
- Hospitals, nursing homes
- Military bases
- Other

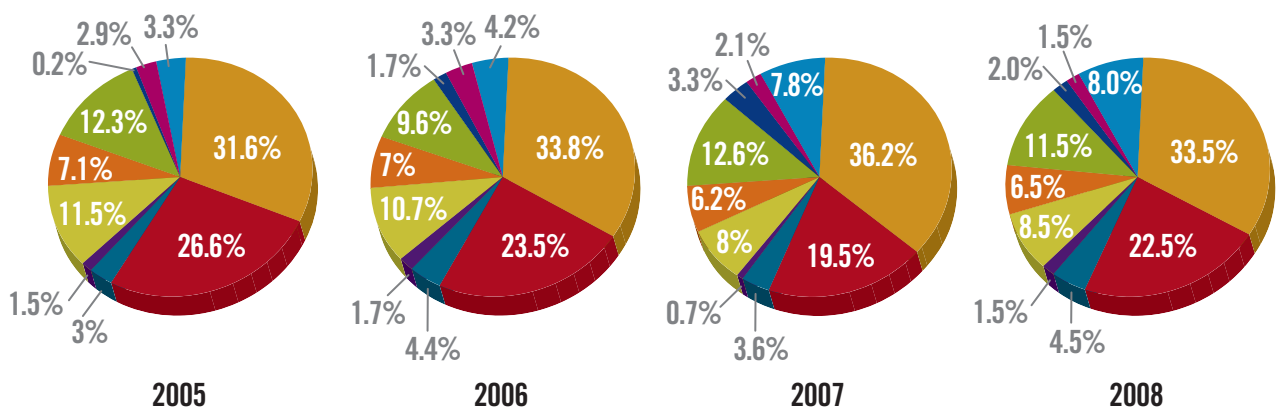


CHART 4A: STAFFING CHANGES IN 2008

- Added
- Reduced
- No change

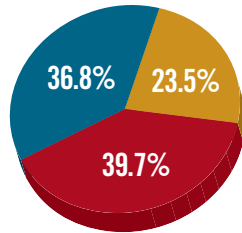


CHART 4B: AMONG THOSE WHO REDUCED, REDUCED THE FOLLOWING AREAS:

- Sales
- Delivery
- Repair
- Warehouse
- Office

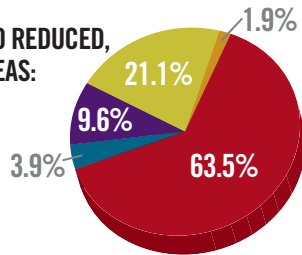


CHART 4C: AMONG THOSE WHO ADDED STAFF, ADDED TO THE FOLLOWING AREAS:

- Sales
- Delivery
- Repair
- Warehouse

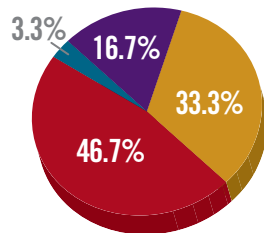
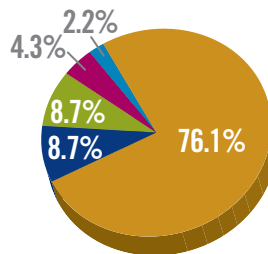


CHART 5: ACQUIRED OR DIVESTED BUSINESS IN 2008:

- Neither acquired or divested
- Both acquired and divested
- Acquired only
- Divested only
- No answer



In addition, the price increases were far from enough to make up for the decline in population counts. Operators were limited by competition and consumer “buying angst” from raising prices to the levels at other retail channels.

Aside from raising prices, the second most frequent profit protective measure for vending operators in 2008 was to absorb the higher costs, as indicated in chart 6. This hurt profitability. The impact of higher operating expenses on profitability in 2008 was measured in the National Automatic Merchandising Association (NAMA) Operating Ratio Report. (See page 6).

The pressure on profitability once again compromised operators’ efforts to invest in technology that theoretically will improve profitability. The survey once again reported

CONTINUED ►

CHART 6: MOST FREQUENT STRATEGIES FOR HANDLING HIGHER COSTS IN 2008:

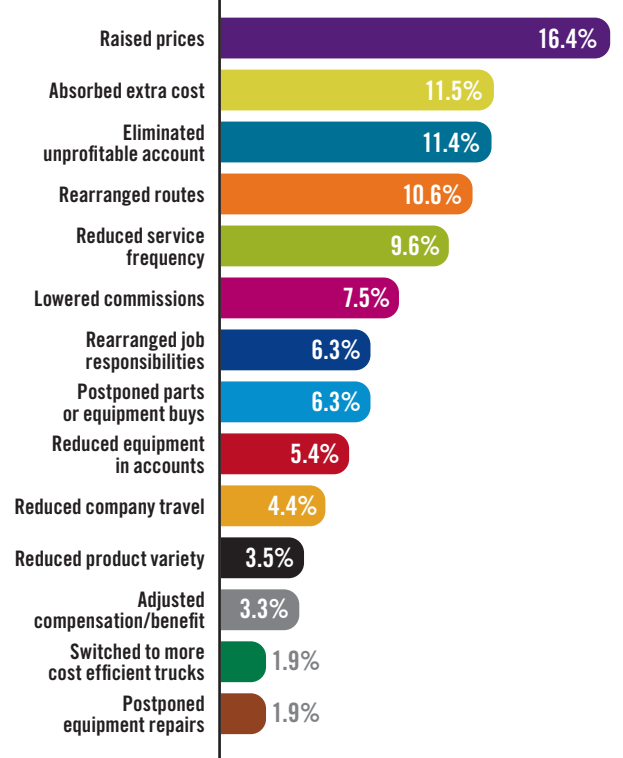


CHART 7: FOR THOSE WHO RAISED PRICES, THE FOLLOWING SEGMENTS WERE MOST FREQUENTLY RAISED:

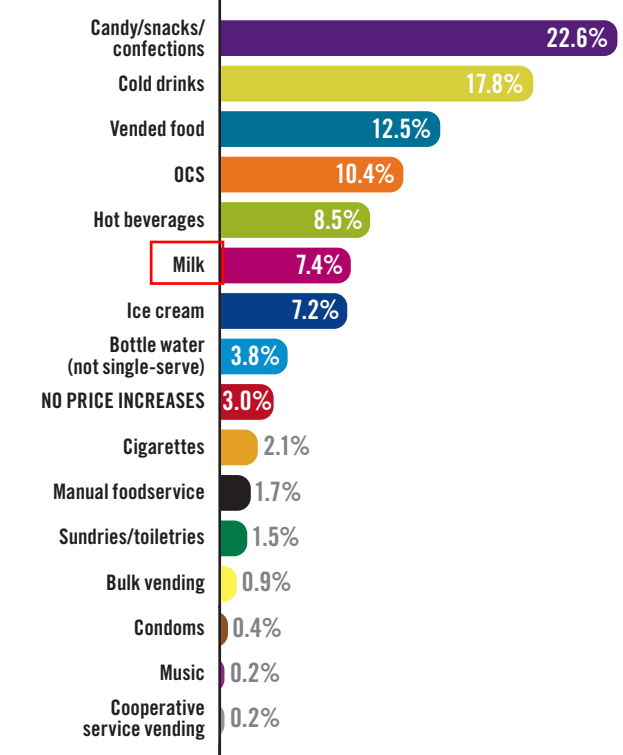


CHART 8A: EXPANDED INTO NEW SERVICES IN 2008:

- Yes
- No

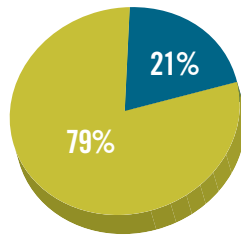
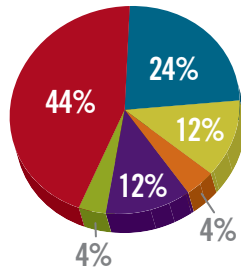


CHART 8B: IF YES, WHICH AREAS?:

- OCS
- Water service
- Manual foodservice
- Wholesale distribution
- Drop shipping via courier
- Other (Not including bulk vending, catering, or retail store)



few operators invested in cashless readers, remote machine monitoring (RMM) and bill recyclers, although there was an increase over 2007 in some areas, as indicated in chart 9.

Among the new payment technologies available, more operators reported installing bill recyclers than RMM or card readers. Bill recyclers represent a much less costly investment than the other options. But the level of activity in this area, 25 percent, was slightly less than in the previous year, indicating reluctance to invest in technology.

Investment in RMM increased in 2008. This was most likely due to the fact that RMM is a technology that supports both pre-kitting and dynamic routing. Pre-kitting and dynamic routing result in more efficient servicing, which took on greater importance to many operators in 2008.

CHART 9: TECHNOLOGY UPGRADES, 2-YEAR COMPARISON

	2007	2008
Installed bill recyclers	29%	25%
Added remote monitoring	5	8
% of machines equipped with cashless readers	2	3

MORE STAFF CHANGES

More than half of all operators either added or reduced staff in 2008, shown in chart 4A, with more reducing (39.7 percent) than adding (23.5 percent). Consistent with the routing changes noted above, the most common area of

CHART 10A: SHARE OF SALES BY CATEGORY, 4-YEAR REVIEW

- 2005
- 2006
- 2007
- 2008

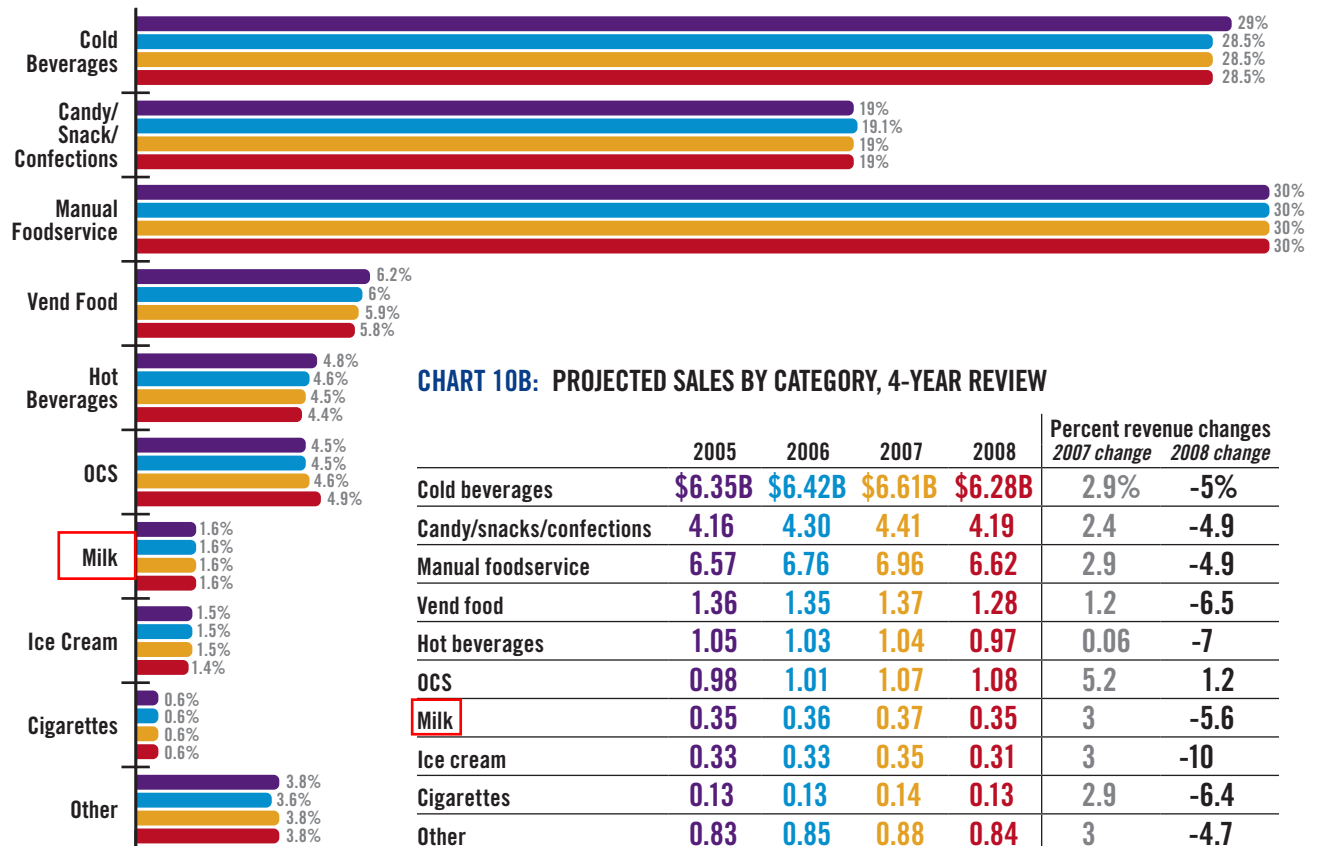


CHART 10B: PROJECTED SALES BY CATEGORY, 4-YEAR REVIEW

	2005	2006	2007	2008	Percent revenue changes	
					2007 change	2008 change
Cold beverages	\$6.35B	\$6.42B	\$6.61B	\$6.28B	2.9%	-5%
Candy/snacks/confections	4.16	4.30	4.41	4.19	2.4	-4.9
Manual foodservice	6.57	6.76	6.96	6.62	2.9	-4.9
Vend food	1.36	1.35	1.37	1.28	1.2	-6.5
Hot beverages	1.05	1.03	1.04	0.97	0.06	-7
OCS	0.98	1.01	1.07	1.08	5.2	1.2
Milk	0.35	0.36	0.37	0.35	3	-5.6
Ice cream	0.33	0.33	0.35	0.31	3	-10
Cigarettes	0.13	0.13	0.14	0.13	2.9	-6.4
Other	0.83	0.85	0.88	0.84	3	-4.7

staff reduction was in deliveries, cited by 63.5 percent who reduced staff, followed by office staff reductions cited by 21.1 percent.

OPERATORS SEEK DIVERSIFICATION

More than a fifth of the respondents (21 percent) expanded into new services in 2008, and the results indicate that much of this activity was outside of the refreshment services area. When asked which areas they expanded into, 44 percent cited “other” areas versus businesses within refreshment services, as shown in chart 8B. The most common refreshment service field mentioned was OCS, cited by 24 percent of the respondents.

Health and wellness continued to be an important consumer issue in 2008, but consumer research indicated that the recession dampened its importance due to heightened concerns about saving money. Schools and government agencies continued to enact nutrition restrictions, and while these do not represent major amounts of business for most operators, the restrictions continued to hurt sales.

In August of 2008, California became the first state to mandate nutrition rules for school vending machines.

The only product with a strong “better for you” association that drove sales in 2008 was bottled water, which has been growing for years. In 2008, state and local governments began considering taxes on bottled water to reduce landfill wastes and protect water resources.

Following is a summary of the main product segments.

COLD DRINKS: CANS COME BACK

Vending operators unanimously agreed they faced a price barrier with 20-ounce bottles in 2008 and were unable to match the price points being charged by competing retail outlets. While chart 11C indicates that operators did make progress raising bottle prices, many complained that the increase did not match the higher costs that suppliers were charging.

The most notable change in the cold beverage segment in 2008 was the gain in cans’ share of sales, despite the fact that can prices remained flat. This marked the first market share gain for cans and the first decline for bottles in four years. The return to cans was more common among smaller vending operators who have less buying clout with product suppliers.

Most operators interviewed said that suppliers did not raise prices on cans as much as bottles. More importantly,

CONTINUED ▶

CHART 11A: COLD BEVERAGE MACHINES BY TYPE, BOTTLERS AND VENDORS, 4-YEAR REVIEW

BOTTLER OWNED				
TYPE	2005	2006	2007	2008
Can closed front	\$1.00M	\$1.00M	\$1.00M	974,000
Bottle closed front	1.03M	1.03M	1.03M	1.03M
Combo bottle & can closed front	378,000	378,000	378,000	378,000
Glassfront	92,715	118,800	153,000	180,000
Cup	0	0	0	0
TOTAL	\$2.500M	\$2.527M	\$2.561M	\$2.562M
VENDOR OWNED				
TYPE	2005	2006	2007	2008
Can closed front	830,000	830,000	830,000	827,000
Bottle closed front	115,000	115,000	115,000	115,000
Combo bottle & can closed front	42,000	42,000	42,000	42,000
Glassfront	12,285	16,200	17,000	20,000
Cup	20,000	15,000	13,000	11,000
TOTAL	\$1.019M	\$1.018M	\$1.017M	\$1.015M

CHART 11B: COLD BEVERAGE SALES, 4-YEAR REVIEW

% OF SALES				
TYPE	2005	2006	2007	2008
Can	23.5%	23.5%	25%	27%
Bottle	76	76	74.5	72.6
Cup	0.5	0.5	0.5	0.3
PROJECTED TOTALS				
TYPE	2005	2006	2007	2008
Can	\$1.489B	\$1.509B	\$1.653B	\$1.69B
Bottle	4.818	4.882	4.928	4.56
Cup	0.032	0.032	0.033	0.018

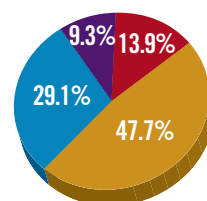
Editor’s Note: These totals only apply to the volume sold by vending operators, not bottlers.

CHART 11C: AVERAGE COLD BEVERAGE PRICES, 4-YEAR REVIEW

TYPE	2005	2006	2007	2008
Can	67¢	67¢	69¢	69¢
Bottle	\$1.08	\$1.08	\$1.10	\$1.15
Cup	59¢	66¢	70¢	70¢

CHART 11D: 2008 COLD DRINK PRICE INCREASES

- Less than 5%
- 5–10%
- 10–20%
- 20% and +



they said cans gave them the opportunity to offer a lower priced product at a time when customers want to save money. Some operators said consumers realized a better value buying two 12-ounce cans than one 20-ounce bottle.

Some further noted that government agencies levied deposit fees on 20-ounce bottles that did not apply to cans.

The majority of operators did not make the switch to cans, however. Many noted that while the profit margin was better with cans on a percentage basis, the dollar margin was lower.

The survey indicated that cold beverage prices rose more than any product segment in 2008 except for candy and snacks. Cold beverages, being the largest single vend product segment next to manual foodservice, affected the overall revenue change more than any product segment in 2008.

COLD DRINK MACHINES DECLINE

For the first time ever, the total number of cold drink machines declined in 2008, reflecting operators' efforts to protect profitability by eliminating unprofitable accounts. The decline in the number of machines, while not radical, contributed to the category's negative growth in 2008.

One positive sign was that while total beverage machine counts fell, glassfront beverage machines increased in 2008, continuing a trend since these merchandisers were introduced in the mid 1990s. Glassfront machines allow operators to showcase more variety and thereby capitalize on the more diverse tastes that have driven the nation's cold drink business in recent years.

While glassfront machines increase sales, some operators argue that on a per-machine basis, they are less profitable due to the higher level of servicing and product warehousing required. Many also note that only the latest glassfront models are mechanically reliable.

Another factor contributing to the decline in cold drink sales was the segment's negative performance across all retail channels.

Beverage Digest, a beverage industry newsletter, reported that the total liquid refreshment business decreased in 2008 for the first time. The decline was 2.2 percentage points. Carbonated drinks, long the dominant segment, have fallen for several years, while growth in non-carbonated beverages prior to 2008 offset soda performance and generated overall growth for beverages in recent years.



attractive options

Contact your Coca-Cola bottler to match the right brands to your consumers for maximized sales.



Beverage Digest noted that the recession, along with other factors, caused consumers to reduce consumption of all liquid refreshments and switch to tap water. Other observers noted that the perceived environmental impact of single-serve bottled water contributed to this trend.

BOTTLED WATER SALES SLOW DOWN

Growth slowed in the once fast-growing single-serve bottled water business in 2008, accounting for 19.7 percent of liquid refreshment volume, compared to 19.3 percent in 2007, according to *Beverage Digest*. Teas, juice drinks, sports drinks and shelf-stable dairy drinks were essentially flat over 2007, rising a collective 0.1 percentage point.

Even energy drinks, a small category that posted a 54.1 percentage point growth in 2007, rose only 4 points in 2008. Energy drinks are among the highest priced beverages that vending operators offer, commanding price points in excess of \$2.00. The high price point is believed to have contributed to its slowdown in the current recession.

While some question the health benefits of diet soda, sports drinks and energy drinks, most of the health con-

CHART 12A: CANDY/SNACK/CONFECTION MACHINES, 4-YEAR REVIEW

	2005	2006	2007	2008
Projected Total	1,328,760	1,328,760	1,328,760	1,320,000

cerns have been directed at high calories and high-fructose corn syrup and artificial sweeteners, which are commonly associated with soda.

CANDY, SNACK AND CONFECTION PRICES RISE

The candy, snack and confection segment posted the biggest price increases among all vend product segments in 2008, driven by manufacturer price hikes. This segment nonetheless fared little better than vending as a whole in revenue performance, due to account downsizing, elimination of accounts and a move by many operators to replace certain items with lower priced products.

Candy in particular experienced some of the steepest manufacturer price increases for the third straight year in 2008. The government announced it was investigating some big chocolate manufacturers for price fixing early in

CONTINUED ▶



caffeine free Diet Coke with new graphics, for refreshing Diet Coke taste any time you've had your daily fill of caffeine.

CHART 12B: TOTALS BY CATEGORY AND SUBCATEGORY

	% sales changes 2008		Projected revenue	% sales of total	Share change from 2007
	Revenue change	Unit change			
CANDY	-3.03%	-8.78%	\$1.396B	33.33%	-1.3%
Chocolate candy	-0.39	-6.35	0.991	23.67	-0.23
Gum	-20.4	-22.67	0.057	1.38	-0.38
Mint/hard roll	-14.57	-16.16	0.033	0.08	-0.92
Non-choc./toffy	-5.74	-10.59	0.311	7.43	-0.47
SNACKS	2.91	-1.32	\$2.793B	66.66%	1.29%
NUTRITION SNACKS	-4.48	-9.08	0.1	0.024	-2.54
Breakfast bars	-30.51	-33.28	0.005	0.01	0
Fruit snacks	-8.57	-12.02	0.033	0.8	-0.2
Granola bars	-0.09	-5.91	0.025	0.06	0
Rice cakes	-38	-39.97	0.003	0.008	0.007
Trail mix	16.29	6.4	0.025	0.06	-0.01
Functional bars	182.6	244.23	Negligible	0	0
BAKED GOODS	10.09	6.0	0.865	20.65	1.75
Cakes/brownies	-24.25	-24.64	0.008	0.019	0.001
Cereal snacks	10.93	9.36	0.062	1.5	0.12
Crème-filled cakes	39.26	36.67	0.06	1.48	0.48
Danish	16.7	10.42	0.02	0.05	0.01
Donuts/gems	49.27	39.64	0.054	1.29	1.21
Honey buns	-6.23	-10.33	0.052	1.26	-0.11
Misc. baked goods	9.4	5.89	0.116	2.78	0.22
Muffins	38	49.73	0.008	0.019	-0.081
Pies	-9.83	-15.41	0.008	0.019	-0.18
Regular cookies	-3.06	-4.83	0.261	6.25	-0.26
Sandwich cookies	20.62	15.94	0.14	3.36	-0.55
Sweet rolls	30.98	21.86	0.091	2.19	0.69
Unfilled cakes	80.39	-58.43	0.003	0	0
CRACKERS	-5.98	-10.98	0.228	5.45	-0.35
Regular crackers	-3.7	-11.15	0.136	3.25	-0.16
Sandwich crackers	-9.16	-10.75	0.091	2.19	-0.25
FOOD SNACKS	51.89	46.25	0.029	00.07	0.02
Meat snacks	28.28	22.65	0.026	0.063	0.013
Meat & Cheese	28.28	22.65	0.005	0.01	-0.01
Miscellaneous food snacks	303.17	388.94	Negligible	0	0
NUTS AND SEEDS	-8.08	-13.0	0.0615	1.47	0.13
Almonds	154.2	1241.28	Negligible	0	0
Cashews	-20.64	-22.7	0.003	0.009	-0.09
Mixed nuts	38.5	30.48	0.001	0.004	-0.02
Peanuts	-7.94	-13.21	0.053	1.27	-0.13
Pumpkin seeds	10.8	7.57	Negligible	0	0
Sunflower seeds	-13.88	-13.58	Negligible	0	0
SALTY SNACKS	0.82%	-2.55	1.503	35.88	-0.01
Cheese curls	-0.85	-1.95	0.225	5.37	-0.09
Corn/tortilla chips	0.15	-2.44	0.415	9.9	0
Onion rings	-30.16	-29.25	0.021	0.5	-0.2
Misc. salty snacks	-14.77	-16.82	0.124	2.97	-0.55

	% sales changes 2008		Projected revenue	% sales of total	Share change from 2007
	Revenue change	Unit change			
Popcorn	0.3	-6.57	0.056	1.35	-0.01
Potato chips	16.89	11.34	0.444	10.5	1.36
Potato sticks	-54.58	-55.39	Negligible	0	0
Pretzels	-12.13	-15.07	0.15	3.59	-0.54
Snack mix	2.06	-5.4	0.065	1.55	0.01

CHART 12C: AVERAGE NUMBER OF ITEMS STOCKED IN CANDY/SNACK MACHINES, 2-YEAR REVIEW

	2007	2008	% change*
CONFECTIONS	13.3	12.4	-6.8%
Chocolate candy	9.1	8.4	-8.6
Gum	1.6	1.5	-2.5
Mint/hard roll	1.2	1.2	0.3
Non chocolate candy or toffee	1.4	1.3	-4.8
SNACKS	26.7	26.9	0.6
Nutrition snacks	1.4	1.3	2.6
Fruit snacks	0.3	0.3	-0.6
Granola bars	0.5	0.5	1.4
Trail mixes	0.4	0.3	-2.8
BAKED GOODS	8.1	8.3	2.1
Cakes/brownies	0.1	0.1	18.9
Cereal snacks	0.7	0.7	0.4
Crème filled cakes	0.6	0.5	-8.9
Danish	0.2	0.2	17.8
Donuts/gems	0.4	0.4	0
Honey buns	0.4	0.4	-9.4
Miscellaneous	0.9	1.0	14.6
Muffins	0	0.1	19.9
Pies	0.1	0.1	7.3
Regular cookies	2.8	2.7	-4.6
CRACKERS	2.9	2.8	-6.4
FOOD SNACKS	0.3	0.4	5.8
NUTS/SEEDS	0.8	0.8	-6.2
SALTED SNACKS	13.2	13.2	1.7

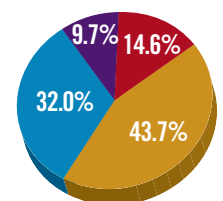
*Totals given have been rounded. Percentage change is not based on rounded number.

CHART 12D: LARGE AND EXTRA LARGE SNACK PACKS, 2008 VERSUS 2007

Sales change	14.89%
Unit change	10.94%

CHART 12E: 2008 CANDY/SNACK/ CONFECTIONS PRICE INCREASES

- Less than 5%
- 5–10%
- 10–20%
- 20% and +



the year. This did not stop some of these companies from raising prices again later in the year.

Many operators have long observed consumers resist candy price increases in vending machines due to the heavy price promotions in other retail outlets.

In 2008, many operators responded to the candy price increases by reducing candy facings and replacing them with snacks. In recent years, snack manufacturers have introduced more products that fit in candy spirals.

Fourteen of the top 15 placement gainers in 2008 were salty snacks and one was a cookie, as indicated in chart 12G.

CANDY SALES FALL FURTHER

This marked the third straight year that candy sales declined at the expense of snacks, as indicated in chart 12B, which is based on data provided by Management Science Associates Inc. (MSA). Candy sales declined 8.78 points in 2008, following a 1.39-point drop in 2007 and a 0.09-point drop in 2006.

In 2008, baked goods gained by double digits after losing volume in 2007. One reason the segment rose was that operators stocked more of these items in machines, indicated in chart 12C. This segment also benefitted from vending operators' efforts to replace candy with less expensive offerings.

MSA reported that the number of candy items stocked in machines declined by 6.8 percentage points in 2008 while snacks and baked goods increased.

Some industry observers claimed that the move to reduce candy facings resulted in lower sales since candy products generate faster turns than many snacks.

Product manufacturers noted that the decline in candy facings was more common among smaller operators. Some claimed that product manufacturers were more flexible in their terms with larger operators.

Operators continued to increase placements of large size candy and snack packages in 2008 in order to raise prices in the machines, as indicated in chart 12D. Operators interviewed noted that large size snacks accounted for most of these premium size offerings, as opposed to large size confections.

Large size snacks could still be offered for less than \$1.00 in many accounts, whereas large size confections could not. Many operators, facing a cost conscious consumer, did not feel confident about offering confections priced over \$1.00. In addition, many operators were not convinced that a large consumer demand exists for large size confections.

"Nutrition snacks" declined in 2008, marking a reverse from the prior year, despite the finding that operators increased placements of these products, as indicated in chart 12C. This supports the finding that when the recession struck, consumers became less concerned about nutrition in favor of better pricing. Products that market nutrition typically carry a premium price point.

CONTINUED ►

CHART 12F: TOP 20 CANDY/SNACK/CONFECTIONS PRICES, 4-YEAR REVIEW

#	PRODUCT	AVERAGE SELLING PRICE				1-YR. CHANGE
		2005	2006	2007	2008	
1	Masterfoods US 2-oz. Snickers Original	67¢	70¢	73¢	76¢	5.08%
2	Masterfoods US 1.74-oz. M&M's Peanut	67	71	73	77	5.3
3	Frito-Lay 1.75-oz. Doritos Nacho Cheesier Big Grab	76	78	79	80	1.39
4	Masterfoods US 2-oz. Twix Bar	67	71	73	78	6.59
5	Frito-Lay 2.125-oz. Cheetos Crunchy	76	79	80	80	0.22
6	Frito-Lay 1.5-oz. Lay's Chips	74	76	77	79	2.47
7	Kellogg/Keebler 1.5-oz. Cheez-It Original	52	55	57	61	7.44
8	Kellogg/Keebler 3.6-oz. Poptarts Frosted Strawberry	77	81	84	88	4.5
9	Masterfoods US 2.13-oz. Three Musketeers Original	66	68	71	77	8.75
10	Masterfoods US 2.17-oz. Skittles	70	74	76	79	3.59
11	Kellogg/Keebler 1.7-oz. Rice Krispies Treat	70	74	77	78	1.73
12	Hershey 2.25-oz. Reese's Peanut Butter Cups	NA	1.04	1.05	1.08	3.55
13	Frito-Lay 1.5-oz. Ruffles Cheddar & Sour Cream	NA	NA	71	81	2.47
14	Cloverhill Bakery 4-oz. Big Texas Cinnamon Roll	NA	NA	NA	95	NA
15	Frito-Lay 2.25-oz. Fritos Chili Cheese	73	76	77	79	2.09
16	Kellogg/Keebler 2-oz. Famous Amos Chocolate Chip Cookies	65	68	71	79	7.92
17	Hershey 1.5-oz. Reese's Peanut Butter Cups	74	76	72	77	7.57
18	Masterfoods US 1.69-oz. M&M's Milk Chocolate	67	70	72	76	4.63
19	Frito-Lay 2.25-oz. Grandma's Mini Vanilla Creams	NA	NA	NA	71	NA
20	Frito-Lay 2.25-oz. Fritos	NA	NA	NA	80	NA

Editor's Note: Percentage gains have been affected by rounding.

CHART 12G: CANDY/SNACK/CONFECTIONS GAINING THE MOST DISTRIBUTION IN 2008

#	PRODUCT
1	Frito-Lay 2.25-oz. Fritos
2	Frito-Lay 2.25-oz. Rold Gold Tiny Twisters
3	Frito-Lay 1.76-oz. Cheetos Crunchy
4	Frito-Lay 1.5-oz. Ruffles Works
5	Frito-Lay 2-oz. Cheetos Crunchy Jalapeno Cheddar
6	Frito-Lay 1.5-oz. Sunchips Harvest Cheddar
7	Frito-Lay 1.9-oz. Ruffles Thick Cut Baked Potato Chips
8	Kellogg Keebler 2-oz. Cheez-It Original
9	Snak King 1.5-oz. El Sabroso Salsitas Tortilla
10	Frito-Lay 1.5-oz. KC Masterpiece Barbecue
11	Inventure Group 1.75-oz. Cheddar & Bacon Potato Skins
12	Kraft Nabisco 1.75-oz. Planters Peanuts
13	Kellogg Keebler 2-oz. Famous Amos Chocolate Chip Cookie
14	Frito-Lay 0.975-oz. Munchos
15	Mr. Nature 2-oz. Unsalted Trail Mix

CHART 12H: NUMBER OF NEW CANDY/SNACK/CONFECTION PRODUCTS INTRODUCED TO VENDING

2005: **206** 2006: **181** 2007: **147** 2008: **122**

Source: Management Science Associates Inc. ProVen data.

However, nuts and seeds, which were not categorized as “nutrition snacks” by MSA but nonetheless carry nutrition connotation, posted a slight market share gain, despite the fact operators stocked fewer of these items.

HOT BEVERAGES FALL AGAIN

Hot beverages posted one of the biggest declines in 2008, continuing a long-term trend that reflects the fallout of large industrial locations that have always been the mainstay of hot drink vending machines. Vending operators included this segment in their pricing increases — operators were especially confident about raising coffee prices due to the well publicized retail price increases of the major consumer brand coffees — but the downsizing in large industrial work sites impacted this segment’s sales more than any other factor in 2008.

The reduction in large work sites that are needed to support hot beverage machines, which are among the most expensive machines for operators to buy and maintain, has made it difficult for operators to invest in the newest hot beverage equipment with more attractive

CONTINUED ▶

CHART 13A: HOT BEVERAGE MACHINES, 4-YEAR REVIEW

	2005	2006	2007	2008
Total	344,000	343,000	341,000	338,000

CHART 13B: HOT BEVERAGE SALES, 4-YEAR REVIEW

% OF SALES				
TYPE	2005	2006	2007	2008
Fresh-brew regular	45.11%	47.08%	46.34%	46%
Fresh-brew decaf	9.68	4.99	4.11	4
Fresh-brew specialty/flavored	8.37	10.17	10.58	10.5
Freeze-dried regular	7.42	4.99	4.15	4.15
Freeze-dried specialty	5.16	8.75	11.6	11.5
Tea	1.47	2.37	3.36	3.5
Hot Chocolate	13.26	13.24	11.12	11.5
Soup	0.79	2.51	2.72	2
Other	8.74	5.88	6.02	6.75

PROJECTED TOTALS

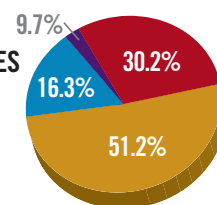
TYPE	2005	2006	2007	2008
Fresh-brew regular	\$473.6M	\$488.2M	\$483.8M	\$446.2M
Fresh-brew decaf	101.6	51.74	42.9	38.8
Fresh-brew specialty/flavored	87.88	105.46	110.5	101.85
Freeze-dried regular	77.7	51.74	43.4	40.2
Freeze-dried specialty	54.12	90.74	121.1	111.5
Tea	15.43	24.57	35.1	33.95
Hot Chocolate	139.23	137.29	116.1	111.5
Soup	8.29	26.02	28.4	19.4
Other	91.77	60.97	64.7	65.46

CHART 13C: AVERAGE HOT BEVERAGE PRICES, 4-YEAR REVIEW

TYPE	2005	2006	2007	2008
Fresh-brew regular	49.6¢	53¢	53¢	57.4¢
Fresh-brew decaf	59.6	48	53	57
Fresh-brew specialty/flavored	61.3	59	63	66
Freeze-dried regular	48	48	52	57
Freeze-dried specialty	54.5	56	62	59
Tea	44	48	51	57
Hot Chocolate	50	51	53	60
Soup	46	60	53	58

CHART 13D: 2008 HOT BEVERAGES PRICE INCREASES

- Less than 5%
- 5–10%
- 10–20%
- 20% and +



designs and, in some cases, more product variety than the older machines.

VEND FOOD STRUGGLES ON

Vend food sales suffered one of the biggest hits in 2008, continuing a long-term trend that, like hot beverage machines, has been driven by the decline in large work sites.

CHART 14A: FOOD MACHINES, 4-YEAR REVIEW

TYPE	2005	2006	2007	2008
Refrigerated	140,000	138,500	137,000	135,000
Frozen*	51,000	54,300	57,300	53,300
Heated	1,500	1,500	1,500	1,300
Ambient	800	800	800	800
Food systems (pizza, french fries)	2,900	3,100	3,300	3,100
TOTAL	196,200	198,200	199,900	193,500
Frozen food machines as a percent of total	25.9%	27.4%	28.66%	28%

* Most were also used for ice cream.

CHART 14B: FOOD MACHINE SALES, 4-YEAR REVIEW

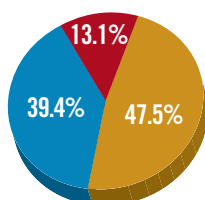
% OF SALES				
TYPE	2005	2006	2007	2008
Freshly-prepared	30%	28%	27%	25%
Frozen-prepared	57	57	58	58
Shelf stable	13	15	15	17
PROJECTED SALES				
TYPE	2005	2006	2007	2008
Freshly-prepared	\$407M	\$378.5M	\$369.6M	\$320M
Frozen	773	770.6	794	740
Shelf stable	176	202.8	205.4	220

CHART 14C: VEND FOOD PRICES, 4-YEAR REVIEW

TYPE	2005	2006	2007	2008
Freshly-prepared	\$1.90	\$1.93	\$1.96	\$2.10
Frozen-prepared	1.85	1.86	1.88	2.05
Shelf stable	1.67	1.71	1.83	1.92

CHART 14D: 2008 VEND FOOD PRICE INCREASES

- Less than 5%
- 5–10%
- 10–20%



Vending operators posted some of their biggest price increases in the food segment, largely because the price points in this category are among the highest to begin with. But the price increases did not come close to compensating for the volume drop caused by lower work site populations and the elimination of machines.

Fiscal 2008 marked the first decrease in the number of frozen food machines. Since frozen machines were introduced in the mid 1990s, they have increased every year until 2008. These machines, which are oftentimes used as ice cream machines, eliminate food waste. Hence, they allow operators to provide food to locations that are not big enough to justify the service that refrigerated food requires.

The reduction in frozen food machines in 2008 reflects the impact of location downsizing.

Another factor was the removal of many of these machines from schools that no longer allowed ice cream due to nutrition restrictions.

Refrigerated machines continued to decline in 2008, sustaining a decades-long trend.

Frozen-prepared and shelf-stable food both gained slightly at the expense of freshly-prepared food in 2008, reflecting the reduction in in-house food preparation.

CHART 14E: TOP 20 FROZEN FOOD PRODUCTS IN 2008, 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	Don Miguel Mini Beef Tacos
5	Nestle Hot Pockets Pepperoni Pizza
6	Pierre Foods Fast Choice Double Beef Stacker With Cheese
7	Pierre Foods Bacon Cheeseburger
8	Best Express Foods Oscar Mayer Lunchables Turkey & Cheddar
9	Pierre Foods Big AZ Bubba Twin Chili Dogs With Cheese
10	Nestle Hot Pockets Ham & Cheese
11	Jimmy Dean Foods Sausage Twin Biscuit
12	Pierre Foods A-1 Chopped Beefsteak Sandwich
13	Schwan Foods Tony's Pepperoni Pizza
14	Pierre Foods Jumbo Cheeseburger
15	Schwan's Foods Tony's Supreme Pizza
16	Pierre Foods Barbecue Wings
17	Sara Lee Hillshire Farms Bagel Cheddarwurst
18	Pierre Foods Monterrey Ranch Chicken Sandwich
19	Nestle Hot Pockets Meatball Mozzarella
20	Pierre Foods Fast Choice Jalapeno Charbroil With Cheese

While commissaries have declined for several years due to the unfavorable economics of food vending, many of the larger operators continued to operate commissaries and still claim they are an important customer pleaser. Operators who can profitably manage commissaries claim they provide good quality food more economically than relying on frozen-prepared and shelf-stable food.

Commissaries also give operators the ability to meet customer requests faster.

COMPETING CHANNELS AFFECT FOOD SALES

Another factor contributing to the loss in food sales was the increasing competition from fast food restaurants and c-stores for meal purchases. Both fast feeders and c-stores aggressively promoted breakfast and lunch meals and invested in better quality and more variety and improved their value offerings.

C-stores have been driven by declines in tobacco and cigarette sales to capture more food and beverage sales and have succeeded in doing so, according to the National Association of Convenience Stores. C-store foodservice sales rose 7.7 points in 2008 while sales of prepared food rose 9.1 percent on a per-store basis.

CHART 14F: TOP 20 REFRIGERATED FOOD PRODUCTS IN 2008, DOLLAR SALES

#	PRODUCT
1	Kraft Oscar Mayer Turkey/Cheddar Lunchables
2	Kraft Oscar Mayer Ham/Cheddar Lunchables
3	Kraft Oscar Mayer Ham/Swiss Lunchables
4	Nestle Nesquik Chocolate Milk
5	Nestle Nesquik Strawberry Milk
6	Kraft Oscar Mayer Nacho Regular Lunchables
7	Kraft Oscar Mayer Bologna & American Lunchables
8	Nestle Nesquik Chocolate Milk Shake
9	Nestle Nesquik Strawberry Milk Shake
10	General Mills Yoplait Strawberry Yogurt
11	General Mills Yoplait Strawberry/Banana Yogurt
12	Dannon Yogurt Cherry Fruit On Bottom
13	Dannon Yogurt Strawberry Fruit On Bottom
14	Dannon Yogurt Strawberry Banana Fruit Bottom
15	Kraft Oscar Mayer Fun Pack Pepperoni Pizza Lunchables
16	Nestle Nesquik Double Chocolate PET
17	Kraft Foods Philadelphia Cream Cheese
18	Kraft Oscar Mayer Fun Pack Turkey & Cheddar Lunchables
19	Kraft Mayer Fast Beef Franks
20	Dean Foods Morningstar Grip N Go 2% White Milk

Source: Vendchannel, 800-999-4271

Food manufacturers have noticed that c-store chains work more closely with them in point-of-sale marketing than vending operators.

MILK SALES TAKE A HIT

For the first time in several years, milk sales fell in 2008, largely due to the erosion of all types of machines that vend milk. Most vended milks sold in refrigerated food machines as opposed to dedicated milk machines and cold drink machines, as indicated in chart 15A.

The number of dedicated milk machines declined in 2008. Most of these machines are in schools, amusement locations and industrial sites. The population fallout in many industrial sites made dedicated milk machines unprofitable.

Population drops in industrial sites also forced vending operators to remove many of the cold food machines that sold milk in these locations.

CONTINUED ▶

CHART 15A: MILK SOLD BY MACHINE TYPE, 4-YEAR REVIEW

% OF SALES				
TYPE	2005	2006	2007	2008
Dedicated milk	20%	18%	18%	15%
Cold beverage	33	28	32	28
Refrigerated food	47	54	50	57

PROJECTED SALES				
TYPE	2005	2006	2007	2008
Dedicated milk	\$70M	\$64.8M	\$66.78M	\$52.5M
Cold beverage	115.5	100.8	118.72	100
Refrigerated food	164.5	194.4	185.50	197.5

CHART 15B: DEDICATED MILK MACHINES, 4-YEAR REVIEW

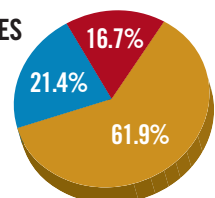
	2005	2006	2007	2008
Total	58,000	56,000	56,000	53,000

CHART 15C: MILK PRICES, 4-YEAR REVIEW

TYPE	2005	2006	2007	2008
Traditional gable cartons	64.4¢	64¢	71¢	74¢
Plastic bottles	\$1.02	\$1.02	\$1.05	\$1.07

CHART 15D: 2008 MILK PRICE INCREASES

- Less than 5%
- 5–10%
- 10–20%



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 with a pattern of white circular motifs.

**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.



got milk?[®]

MilkPEP[®]
Milk Processor Education Program

The percentage of milk sold in cold drink venders and dedicated milk machines both declined in 2008.

Vending operators included milk in their overall price increases in 2008, as indicated in chart 15C.

Up until 2008, vend milk sales rode the category's overall growth which was driven in large measure by the milk industry's aggressive advertising, which high-

lighted milk's health benefits. The category overall continued to grow in 2008, according to the Beverage Marketing Corp. (BMC), which tracks beverage trends. BMC reported that milk volume in all retail outlets was essentially flat in 2008 and dollar sales rose by about 4 percentage points.

Milk has in recent years created a new business opportunity for vending operators in many school accounts since milk is not included in most school beverage vending contracts. However, milk is not as profitable as most other beverages and students are price sensitive, restricting the prices operators can charge.

The Milk Processor Education Program, an industry group that tracks milk vending in schools, reported a dip in milk availability in vending machines in secondary schools, from 24 percent in 2007 to 16 percent in 2008.

CHART 16A: ICE CREAM BY MACHINE TYPE, 4-YEAR REVIEW

% OF SALES				
TYPE	2005	2006	2007	2008
Combination food/ice cream	48%	47%	47%	47%
Old style, 3- and 4-select	11	10	10	10
Dedicated, new style multi-product	37	40	40	40
Dual temperature machine	4	3	3	3
PROJECTED SALES				
TYPE	2005	2006	2007	2008
Combination food/ice cream	\$157.4M	\$158.9M	\$163.6M	\$150M
Old style, 3- and 4-select	36.1	33.8	34.8	30
Dedicated, new style multi-product	121.4	135.2	139.2	120
Dual temperature machine	12.1	10.1	10.4	10

ICE CREAM SUFFERS

Ice cream, one of the smallest product segments in terms of sales volume, took the biggest hit of all categories measured in 2008. It was the only segment to post a double digit sales drop. The loss was largely driven by the reduction in frozen food machines, the first year this occurred since frozen food machines were introduced in the mid 1990s.

Much of the reduction in frozen food machines was driven by schools that banned ice cream due to nutrition rules.

Market research organizations have reported that the recession did not adversely affect overall ice cream consumption since it is considered a "comfort" food.

According to the International Dairy Foods Association Ice Cream Market Research Report, retail dollars sales of ice cream were flat in 2008, as compared to 2007, but were up for the other three categories of frozen desserts: frozen novelties, frozen yogurt and sherbet/sorbet/water ice. Frozen yogurt, which analysts have claimed has benefited from its health association, has not been available in vending distribution.

CHART 16B: DEDICATED ICE CREAM MACHINES, 4-YEAR REVIEW

2005	2006	2007	2008
57,935 ¹	60,935 ²	62,770 ³	58,770 ⁴

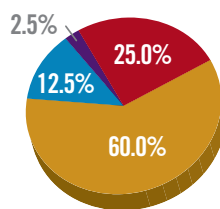
¹ Of 51,000 frozen food machines in 2005, 39,000 are included in this number.
² Of 54,300 frozen food machines in 2006, 42,000 are included in this number.
³ Of 57,300 frozen food machines in 2007, 44,121 are included in this number.
⁴ Of 53,300 frozen food machines in 2008, 40,121 are included in this number.

CHART 16C: ICE CREAM PRICES, 4-YEAR REVIEW

TYPE	2005	2006	2007	2008
Ice cream	\$1.14	\$1.15	\$1.15	\$1.20
Frozen confections	1.27	1.27	1.00	1.34

CHART 16D: 2008 ICE CREAM PRICE INCREASES

- Less than 5%
- 5-10%
- 10-20%
- 20% and +



2009 CHALLENGES THE INDUSTRY MORE

While 2008 was one of the weaker years for automatic merchandising, 2009 does not promise any improvement, given the continuing increase in account downsizing and decrease in consumer confidence. National unemployment reached 9.5 percent in July of 2009, the highest rate since the 1980s. The employment situation is not expected to improve significantly in the near future. | ◀