

# Chapter 1

## Introduction

**B**efore investing time, energy, money, and, most important, yourself in any business, it's just plain good sense to know something about what you're getting into. History, current issues, and future trends all impact the steps you take toward becoming a successful entrepreneur.

In the case of this book, it's also important to know who's giving you the advice. Do they have similar backgrounds? Are they from towns that are similar to yours? How do their businesses compare to the one you're planning to start?

The more you know, the more likely you are to prosper. So without further ado, let's answer the questions we've already asked as well as a few more.

### **What Are We Talking About?**

If you visit your dictionary (we used *American Heritage*), you'll likely discover the definition of "vending machine" is "A coin-operated machine that dispenses merchandise." Of course, if you've purchased food, beverages, or sundries from a vending machine lately, you know that paper money and even plastic are used for purchases.

Perhaps a more thorough description of vending is the one suggested by the National Automatic Merchandising Association (NAMA) in its booklet *Vending 101*: "The business of buying, placing on location, filling with product, removing cash, and maintaining vending equipment."

Just like boiling down the theory of gravity to "What goes up must come down," the day-to-day realities of a successful vending operation are also a bit more complicated. But NAMA's definition is an excellent place to start.

### **Where It All Began**

According to *A Concise History of Vending*, written by respected professor, prolific author, and NAMA president emeritus G. Richard Schreiber, the earliest known vending machine was an Egyptian liquid-distribution device dating from 215 b.c. Not surprisingly, the device dispensed holy water at places of worship when a coin was deposited.

In the United States, it is generally accepted that vending began in 1888, when the Adams Gum company introduced its penny machines. From this humble beginning, vending has grown to an industry with annual gross sales estimated between \$24 billion and \$34 billion.

### Current State Of Affairs

For years and years, food-related vending enjoyed unbridled growth as factories and offices sprang up across North America. Even today, food remains the largest vending segment at about 93 percent of the industry, according to the trade news journal *Vending Times*.

According to *Vending Times* editor-in-chief, Tim Stanford, the vending industry today is in a bit of a quandary. “At the moment, vending is in somewhat of a decline and yet the demand for vending has never been greater. It’s not that vending is selling less products, it’s that the big accounts are harder to find,” explains Stanford, who believes that you can still do very well in the business, but that you need to understand the business thoroughly before jumping in.

“The problem is that the demand is exercised by smaller businesses because the old 1,500-man factories are fewer and fewer. Many companies have downsized, so we don’t have 120 employees at one office anymore. Instead you have maybe 60 people. They still want vending machines, but the location is not as attractive as it once was,” adds Stanford.

The result, because of a combination of downsizing, telecommuting, and increasing satellite offices, is that the vending operator needs to place more machines in various locations to compensate for the smaller number of employees in one location. The demand is still there, it’s simply more fragmented. The problem for the vending operator is that more machines and a larger route mean more time and money expended to make the same money that the old-time operators could make from a handful of very large locations.

Some of this problem, however, can be alleviated by planning differently from how the old-time operators worked. For some this may mean more smaller-sized machines and the use of software technology to allow the machine itself to communicate when it is running low on product. According to Stanford there are very experienced people in the industry from whom newcomers can (and should) learn a lot before starting out. However, there is nobody that can provide a foolproof method. You will need to create your own system and establish your own routes.

### Vending Adage

**In some ways the vending business is similar to the old saying “You can give a man a fish and feed him for a day or you can teach a man to fish and he can feed himself for a lifetime.”** In vending, you can give someone a location, or you can teach them how to find locations, so that they will be able to run their business successfully.

One of the keys to building a business today (in any industry) is understanding the wide diversity of tastes and product possibilities that the consumer has come to expect. There are probably 20 different types of soda under the Coca-Cola brand on the market today. Instead of simply buying orange juice, you'll find frozen, small containers, quarts, bottles, "pulp," "no pulp," and various combinations of orange and another juice. The point is that consumers, being faced with such a range of products, are particular in their selections. Therefore, you will need to embrace the various possibilities and determine what will work best in your demographic market and where you can sell specific products. Not unlike a detective solving a crime, the successful vending operator today is skillful at putting all of the components together to answer the questions:

1. What do I sell?  
and

2. Where do I sell it?

To make things more interesting, and provide the vending operator with more options to fit these smaller but still vending-conscious businesses, a variety of different-sized machines have appeared in recent years along with new products suited for vending machines ranging from frozen pizzas to digital cameras.

Although consumers in countries like Japan buy an ever-expanding array of vended products, vending is generally considered to be a "mature" industry in the United States. Unlike the youthful technology industry, where innovation makes millionaires overnight, today's keys to vending success are controlling costs, strategizing, aggressive marketing, exceptional management, and a lot of plain hard work.

### **Hazards To Navigate**

In addition to hurdles posed by tangible economic forces, vending continues to combat negative perceptions. Another NAMA-commissioned report, "Management Report: What Consumers Think of Vending," by Tech-monic Inc., explored consumer attitudes toward vending.

Of those who do purchase from vending machines (instead of from some other source), only 1 percent identify "high quality" as the motivator and only 16 percent name "good value." On the other hand, almost 64 percent report being a captive audience—they purchase from vending machines because there is no other alternative.

Also, nearly 20 percent of those surveyed believe most vending machines are

### **Fun Fact**

**According to Vending Times' annual Census of the Industry, vending dollar volume has increased a little each year to climb steadily from \$40 billion in 2001 to a recent \$46 billion in 2005.**



unreliable, and more than 70 percent believe it's difficult to get a refund if something goes wrong.

While the underlying causes of these findings were beyond the scope of the report, explanations are easy to come by. *Automatic Merchandiser* (a monthly trade magazine), *Vending Times*, and industry watchers in general agree that vending businesses themselves are typically the source of the problem. During vending's heyday of growth and prosperity, attending to customer satisfaction was irrelevant to making a profit. Today, customer service is a must, and there are still some vending operators who do things as they have been doing them for years. When it comes to changing with the times and perhaps exploring new innovations, Tim Stanford sums it up well. "You'll hear the phrase 'that's not the business we're in' by some of the veterans," says Stanford, of those who remain set in their ways.

Another factor contributing to consumers' negative image of vending will be discussed in more detail in Chapter 3. To summarize briefly, scams in vending are so prevalent that hundreds, if not thousands, of innocent individuals are sold vending machines every year under false but convincing pretenses. Often, the victims of such schemes, called "Blue Sky schemes," place machines at various locations, slowly go bankrupt, and then simply abandon the equipment, leaving consumers frustrated and without recourse.

### **Back To The Future**

Before you close this book and give up your dream in despair, we want you to know the picture isn't entirely black. The Hudson Report shows that various technological, economic, demographic, and other forces are opening doors to new ways of doing business and new markets to explore.

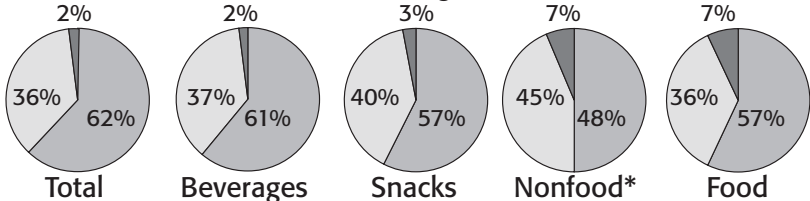
For example, cell phones and pagers reduce vending businesses' overhead by decreasing the need for secretarial support. Laptops, notebooks, and wireless handheld devices like BlackBerries allow for inputting information directly at the site with the latest in software, rather than scribbling down machine data and crunching numbers later by hand.

Demographically, the newest consumers, Generations X and Y, have been profoundly affected by technology and the increasingly fast pace of the world around them. They are becoming more self-reliant at a younger age than their parents, and often start making their own purchasing decisions early in life. Students are juggling classes, workloads, and extracurricular activities. The idea of buying an item without waiting on line is more and more appealing. In business and industries, many companies have gone from 35 to 40 hours up to 45 to 55 hours, creating the need for quick, easily accessible food. In most businesses today, time is of the essence so vending machines are welcomed for that quick snack or cup of coffee.

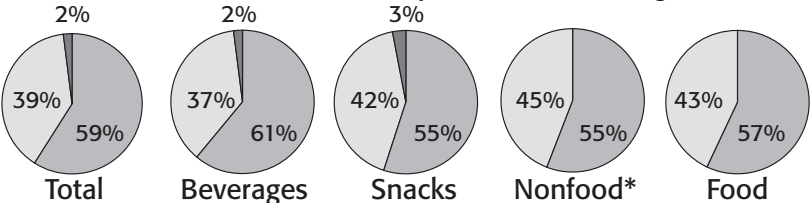
As the world gets faster and more technologically oriented the need for vending machines increases.

## Vending Satisfaction

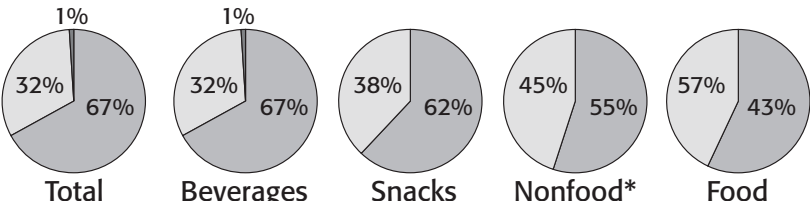
Consumer satisfaction with vending



Consumer satisfaction with variety of vended offerings



Consumer satisfaction with quality of vended products



Very satisfied   
 Somewhat satisfied   
 Not satisfied

\*Includes newspapers, cigarettes, condoms, feminine items and toiletries

Source: Automatic Merchandiser

### **Fun Fact**

**According to the U.S. Department of Labor, most individuals working in the vending business learn their skills on the job. New workers are trained informally on the job to fill and fix machines by observing, working with, and receiving instruction from those with experience.**



### **What Does It All Mean?**

Admittedly, the swiftly changing landscape is making the process of doing business particularly difficult for established vending organizations that are accustomed to doing everything “the old way.” In addition to the Hudson report, articles in *Automatic Merchandiser*, reports in *Vending Times*, and statements by organizations like NAMA repeatedly admonish vending companies to pay more attention to merchandising, customer service, computerization, and related efficiencies.

In other words, just filling machines, and being on your way, isn’t good enough anymore.

For entrepreneurs like you, the current and future trends of the industry offer as many opportunities as roadblocks. Unfettered by “the way we’ve always done it,” you can turn the challenges of the rapidly changing marketplace to your advantage faster than can an established organization, where old habits often die hard.

### **Our Focus**

To help you become a successful operator, this book draws on the insights of entrepreneurs who took advantage of opportunities by entering relatively new vending fields or embracing the forces of innovation and change. It also provides insights from those who watched countless wanna-bes and savvy survivors.

Because consumable products dominate the profit potential in the vending industry and offer you the best opportunities, we’ll focus on this segment. We’ll also introduce you to issues faced by entrepreneurs who identify an unexplored vending market and strike off to conquer the unknown.

### **Other Opportunities**

What’s not specifically addressed here is amusement vending—arcade games, jukeboxes, etc.—and street vending. Bulk vending—stickers, toys, and gumballs—and office coffee service (OCS) are also underrepresented.

In the case of amusement and street vending, many of the basics of vending consumables apply. Even more information will apply to bulk vending and OCS, but their segments also face issues beyond the scope of this work.

For those interested in the foregoing, we recommend using this business guide to acquaint yourself with the fundamentals and as a valuable source for work sheets

and checklists. In addition, you will find references to more specific assistance listed in the Appendix.

### Meet Our Operators

Vending business owners most often refer to themselves as “operators,” a term we’ve wholeheartedly adopted. We’ll supply you with all the jargon you’ll need to navigate the industry in the next chapter and our Glossary, but for now, we’d like to introduce you to the voices you’ll hear throughout this book.

Wayne D. of Burnsville, Minnesota, a suburb of Minneapolis, is our most veteran entrepreneur. He started his business part time in 1978 while still working as a full-time cigarette vending sales representative for the tobacco company R.J. Reynolds. “I was nearing 40 and knew I wasn’t going to be retiring with Reynolds,” says Wayne.

Wayne chose vending because his Reynolds job gave him a bird’s-eye view of what worked and what didn’t. “I had a distinct advantage because I saw how two or three hundred companies operated,” he explains. “So my wife and I started our company with 14 candy, snack, and cigarette machines in five different locations.”

### Market Share Of Vended Products

Packaged cold beverages*	51.0%
Snacks, confections, pastries	21.7%
Hot drinks	9.6%
Vended foods (includes refrigerated/frozen)	7.1%
Cold drinks (cups)	2.1%
Ice cream	2.0%
Cigarettes and cigars	1.9%
Milk	1.8%
Bulk vending	0.9%
All other	1.9%
<b>Total</b>	<b>100.0%</b>

*\*Juice is also sold through other beverage vendors, such as canned soda or bottled drink machines.*

Source: Vending Times annual Census of the Industry

### Fun Fact

**The National Association of Hosiery Manufacturers** places the retail pantyhose industry at \$2.8 billion, representing over 1.3 billion pairs of pantyhose, tights, and opaques. No statistics are available for vending's share of the market.



Five years and a number of smaller acquisitions later, Wayne purchased a larger operation and traded his Reynolds position for working in vending full time.

Janice M. of Baltimore, Maryland, represents entrepreneurship in its truest sense. “In May of 1995, I had a job interview at 8:30 a.m.,” says the 30-ish single African-American mother of three. “After dropping off my children, I arrived for the interview at 12 minutes after 8:00, and I suddenly

noticed I had a hole the size of Seattle in my pantyhose.”

Although the receptionist directed her to the company canteen, by the time she found the hosiery, selected between beige, gray, or black, negotiated the checkout counter, and returned to the waiting area, time had run out. “I was told I didn’t have time to put them on,” Janice recalls. “Well, this was my first real corporate job and I wanted to make a good impression, so I didn’t want to be late.”

Janice figures her boss must have noticed the gaping crevasse, but he never uttered a word and offered her the administrative assistant position anyway. For the next year she revisited the incident several times. “I remember I just kept thinking about it—I don’t know why. But I kept thinking it would have been really great if there had been a machine in the bathroom so I didn’t have to go running around.”

While she worked as an administrative assistant, Janice ran an event-planning business on the side and enrolled in a business training class offered by a local economic development organization: Women Entrepreneurs of Baltimore. She mentioned the idea to a fellow classmate, and he suggested she go to the library and research the subject in *Vending Times*.

“*Vending Times* didn’t have anything listed that was solely pantyhose [although, according to editor Tim Stanford, he recalls some pantyhose vending attempts as far back as 30 years ago], so I called vending companies to see if anyone had heard of it,” Janice recollects. But no one had. So Janice decided to give the idea a go, and by midsummer 1996, her business was born.

Because she’s not only pitching vending but trying a fairly new and innovative concept, pantyhose dispensing, Janice still works in the corporate world part time. But she remains optimistic and focused on her dream of someday making her business full time and even franchising her patented idea. “I just want to make a lasting impression for years to come,” she asserts, “so that my children can grow up and say, ‘This is something Mommy did, and we can do it, too.’”

Becky P. of Northridge, California, launched into vending full time in 1984 when

she and her husband “became partners in life.” Although he brought 30 years of vending experience to their union, he’d left vending when some family members suggested he become an investor in one of their projects.

“So it really was like we were starting from scratch,” says the former human resources manager, who also counts restaurant and fast-food work as part of her background. “But I had three jobs when we met, so he knew I was perfect for this industry because I was already putting in 100 hours per week.”

While most food vendors begin with snacks and sodas, Becky P. and her husband formed their Southern California operation as a full-line service. This means they bucked conventional wisdom and offered fresh refrigerated food from the start.

“If you go into cold food with a defeatist attitude, you will be defeated,” Becky stresses. Full-line vending is for people who appreciate good food and fine dining. “Don’t go into cold food if you’re not willing to work it like a restaurant. If you want to work six hours a day or five days a week, forget it.”

B.J. S. of Hendersonville, Tennessee, a Nashville suburb, got into vending after owning a construction company in Spain. A native of Sweden, he met his American wife while at school in the United States. The pair lived abroad until 1995, when they moved back to be near her aging parents.

For B.J., owning a vending company was a happenstance. “My father-in-law started the business, and he wanted to retire. I was looking for something to do, so I bought the business from him in July of 1995.”

When he took over the business, gross sales just grazed a million per year. Trucks and equipment were antiquated and all the accounting was done by hand. “We bought a lot of trucks,” he recalls. “The average age of the fleet was ten years old. We bought ten vehicles in three years, which we financed at a cost of a quarter-million dollars.”

Since then, B.J. has tested all the latest technology, beefed up his employee base, and expanded service to cover all five surrounding counties. Gross sales today top \$3.5 million.

### **Fun Fact**

**There are 511,000 offices and office complexes, 482,000 public locations, and 157,000 plants and factories served by vending operators, according to Vending Times annual Census of the Industry.**



### **A Few More Experts**

To assist with big-picture issues, you’ll also hear from four experts, all with years of experience helping startup entrepreneurs just like you.

## I'll Buy That

**The vending industry breaks down into seven distinct segments. To help you keep score, here are the terms you'll encounter and what each one means.**

**1. 4C's:** an abbreviation that stands for the basics of vending as it evolved (coffee, cup soda, candy, and cigarettes). Today, this segment is most often referred to as "snacks and soda."

**2. Full line:** the incorporation of fresh refrigerated items, such as sandwiches and frozen foods, to operators' offerings.

**3. OCS:** the commonly used abbreviation for office coffee service, where operators provide equipment and "kits" containing coffee and related items such as sweeteners, creamers, stir sticks, etc. Full-line vending operators often migrate into OCS and vice versa to meet the needs of their clients.

**4. Specialty:** refers to a particular line of products, such as French fries, pizza, or pantyhose, among many others.

**5. Bulk:** the vending of gumballs, toys, stickers, novelties, etc., in loose form. Crossover between full-line and bulk operators in both directions is common but not as frequent as the full-line–OCS connection.

**6. Amusements or music/game:** began on the jukebox/pool table side of the business but now includes music machines, video, and arcade games of all sorts. This is another area of crossover with full line, but most often in the form of a separate operation within a larger company due to the specific needs of this market.

**7. Street:** most often used to describe mobile operations located in public areas, such as sidewalks and shopping malls. Street vending is generally viewed as a subset or a combination of specialty, full-line, and amusement vending.

Donald C. Blotner, president of DCB Consulting in Eagan, Minnesota, has been providing management and consulting services to the vending industry since 1985. His experience includes over 20 years of employment for independently owned vending operations. Prior to founding his consulting firm, Blotner served as the operations manager for a Wisconsin vending business that boasted \$3.5 million in annual sales. His responsibilities included redesigning and redefining the roles of key personnel to adapt to changing company and customer needs. Blotner donates considerable time and other resources to assisting new and established operators through NAMA. He presents educational seminars, writes articles for publications, and mentors and volunteers in numerous other capacities.

Beverly Bowers, owner and president of Blue Moose Locators in Cincinnati, Ohio, entered the world of vending the hard way, buying a vending machine pack-

age from a Blue Skies company. “I spent about three times what the equipment was worth but I got lucky and found good locations on my own and could see the possibilities as far as the business so what I started doing was finding good locations for a couple of companies and they would give me equipment in return.”

Soon, Bowers established herself as a full-line operator based in Cincinnati. “We had some large accounts like the GE Airlines Factory over in Kentucky, we had prisons, we sold cold food, coffee, lots of items, and it grew steadily. We ended up having a work force of about 23 employees and did very well for 18 years,” says Bowers, who made something out of less than nothing, starting out in the wrong direction. “We had 450 machines out there in location and 200 more machines in the warehouse for sale or to be refurbished. Local vendors or vendors from other areas bought from us. We were a very big part of the local vending community,” adds Bowers.

She sold the business about two years ago and retired. However, retirement was not exactly stimulating for someone who was out and about as a local leader in the industry for nearly two decades. So, with numerous contacts, an established knack for finding good locations, and a desire to stay in the business and help newcomers, Bowers opened a new, smaller business called Blue Moose Locators, which she enjoys running today.

Vince Gumma is co-owner of American Vending Sales Inc. (AVS) in Chicago. Established in 1971, AVS distributes vending machines, jukeboxes, video games, and pinball and redemption games as well as maintaining an inventory of tens of thousands of parts. Gumma joined AVS in 1986 after working in the printing ink industry and currently serves as an officer in the Illinois Automatic Merchandising Council (IAMC), a state affiliate of NAMA. He plays an active role in efforts to improve the image of the industry both by assisting with NAMA publicity efforts and helping startups understand the realities of owning a vending business. He has received numerous awards from the IAMC and, most recently, the NAMA Chairman’s Award for his participation in helping the Illinois vending industry achieve favorable sales tax legislation.

John Ochi is vice president of Five Star Distributors Inc. in Vernon Hills, Illinois. Headquartered in suburban Chicago, the consumables distributor also maintains a location in Atlanta and was purchased by its current owners in 1975. In addition to delivering products, Five Star permits small operators to access

### **Smart Tip**

***To locate industry experts willing to provide you with assistance and advice, contact the National Automatic Merchandising Association or the industry organization for your vending specialty.***

