

Vending Machines Get Smart to Accommodate the Cashless

Makers and operators roll out interactive, credit-friendly units

by **Olga Kharif**

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By 2018 there will be an estimated 2 million smart vending machines in the U.S. *Courtesy Pepsi*

More than 40 percent of U.S. adults say they can go a week without paying for something with cash, according to a survey conducted by Rasmussen Reports last year, but most of the roughly 5 million vending machines in the U.S. still accept only coins or bills, even as prices rise. Vending industry sales fell 18.3 percent between 2007 and 2011, to 1990s levels, before recovering slightly last year, to \$19.3 billion.

To boost sales, vending companies are installing new machines that accept credit cards and mobile payments and feature digital screens, video cameras, and smartphone charging stations. Machines that accept plastic can lift sales 25 percent to 30 percent, estimates Michael Kasavana, a professor at Michigan State University who studies self-service technology. Kasavana says revenue per transaction rises 15 percent to 20 percent when the machines can prompt consumers to buy a Snickers bar along with their bag of Doritos. “The vending industry has had to respond to the change in consumer preferences in order to remain relevant and profitable,” says Brad Ellis, president of Crane Merchandising Systems, one of the largest makers of vending machines.

Market researcher Frost & Sullivan says there were 500,000 to 700,000 so-called smart vending machines in operation last year and estimates there’ll be as many as 2 million by 2018. Coca-Cola, which runs its own vending network, says it plans to roll out tens of thousands of machines this year that accept smartphone payments and track users’ purchases to offer an occasional discount or free drink. Coke has spent a year testing 200 machines in Austin, Tex. PepsiCo is using a handful of malls to test machines with screens that allow customers to play video games with free drinks as rewards; the screens also run soda ads that feature actress Sofia Vergara. Sales at vending machine maker ZoomSystems are growing more than 25 percent a year, with its machines selling products from Apple, Best Buy, and Proactiv at airports, hotels, and casinos. The Wittern Group is pushing its machines into hospitals, to dispense items such as scrubs.

Web connectivity can cut vending operators’ logistics costs, allowing them to track inventory online and centralize decisions about when to restock and what to put in each machine, rather than sending trucks to check each one. Some operators can reduce their truck fleets as much as 40 percent, says Mandeep Arora, chief executive officer of Cantaloupe Systems, which sells networking services to machine operators. “We can send an SMS if there’s a jam or a machine loses power,” Arora says. Cantaloupe charges \$10 to \$15 a month for each of the 100,000 new machines it networks and monitors, while rival USA Technologies charges about \$10.

Retrofitting an older machine to add Web connectivity can cost as much as \$500, and a new smart machine can run over \$10,000, more than double the price of a conventional one. For some operators, that’s a deal-breaker: Many own fewer than 20 machines and have thin margins. Still, operators need to upgrade to survive, says Dennis Hogan, CEO of Canteen Vending Services, which manages more than 200,000 vending units in the U.S. “The industry is going through some consolidation,” Hogan says. “Those companies that are willing to invest in technology are thriving.”

Vending machine operators are likely to pass those costs on to card-swiping consumers. While large operators could take as long as six months to manually change prices on older machines, networking allows instant price changes. As fuel and chocolate costs rose, vending machine

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candy prices jumped 87.6 percent last year, according to *Automatic Merchandiser* magazine. Editor Emily Refermat says: “Vending operators historically were nervous to raise prices, and now they are realizing they have to—to stay in business.”