

Transforming the Business Case

# INTELLIGENT VENDING<sup>®</sup>

**Real Challenges, Real Solutions.**

*Cashless Makes a Losing Account a Winning Proposition*

Success Stories



# Executive Summary

## Market opportunity:

- ▶ Cinemas are good examples of locations in the entertainment channel where consumers are already conditioned to use credit cards for purchases
- ▶ Machines at locations such as these often have higher-than-average vend prices, making them well suited for credit/debit payment systems
- ▶ Higher vend prices often result in more frequent out-of-change conditions—credit/debit payment systems alleviate the negative impact these out-of-change conditions have on sales by offering an alternative payment option to consumers
- ▶ Concessions stands at cinemas accept credit/debit cards for payment—now vending machines can offer similar services, providing a convenient option for consumers who do not wish to wait in line at the concessionary

Before adding credit/debit	After adding credit/debit
▶ Vending machines sales below break even at their \$3 vend price	▶ Vending sales volume up 139% within 12 months
▶ Market test of beverage vending in a large cinema chain was failing	▶ Credit/debit sales of \$300 to \$900 a month per machine
▶ Out-of-change and out-of-stock conditions existed	▶ Data visibility identified out-of-change and out-of-product conditions
▶ Unsure of consumer acceptance of credit/debit vending	▶ 30% of all transactions are credit/debit, up to 40% on occasion
▶ High vend prices may have been a deterrent for cash conscious consumers	▶ Consumers less concerned with price when using credit/debit
▶ Consumers deterred from buying beverages due to long lines for concessions	▶ Consumers able to purchase beverages quickly from a vending machine

## Market Conditions

Cinemas are good examples of vending accounts in the entertainment channel that typically have very high vend prices. Concession sales are a major contributor to a theater's profit. As a result, the prices of concessionary items are usually well above market average, with fountain sodas priced at \$3.50 or more. In order to complement concessionary items and grow overall profit, vended items have to be priced similarly. However, industry analysis proves that attempts to introduce vend prices over one dollar often result in a volume decrease of 20% or more. The question remains, is it the increase in price or the decrease in convenience that discourages purchases beyond the one-dollar price point? After all, consumers willingly pay \$1.25 or more for the same 20oz beverage in a convenience store and in the following scenario consumers are paying \$3.50 for the same beverage from the fountain. Because higher vend prices often result in increased out-of-change conditions, this might contribute to the unwillingness to buy.

## Background

A major bottler in North America, and a large national cinema customer, paired up to test the introduction of beverage vending inside cinemas on the theory that consumers might opt for the convenience of vended product, versus waiting in line for service. This bottler selected four of the chain's cinemas in a major metropolitan area and placed a total of ten glass-front venders across the four locations. Beverages in these machines were priced at three dollars to correspond with the fountain beverage price and only cash was accepted for purchase. Both the bottler and the cinema chain were interested in seeing if overall beverage sales were positively impacted.

***One study shows that 50% of consumers will walk away from a vending machine when the "use correct change" light is on.***

## Challenge

Results were coming in well below expectations and sales could not justify the vending machine placements. It was also determined that machines were continuously out of change. Bill Validators were set to accept five dollar bills but one dollar coins were not included in coin mechs, relying on changer capacity for quarters. The situation was worsened by nearby gaming machines where customers used vending to generate change. If the vending program was to continue, something had to be done to transform the business case and make vending a more viable option.

## USA Technologies' Solution

With the knowledge that cinemas, similar to other accounts in the entertainment channel, are locations where credit is already a preferred payment method, this major bottler in North America approached USA Technologies to see if adding a credit/debit card payment system to their vending machines would encourage consumer purchase, increase sales and lessen the impact of out-of-change situations. Installing the e-Port® device on these machines would also enable this bottler access to operational data which they could use to monitor machine functionality, sales performance and even consumer spending patterns.

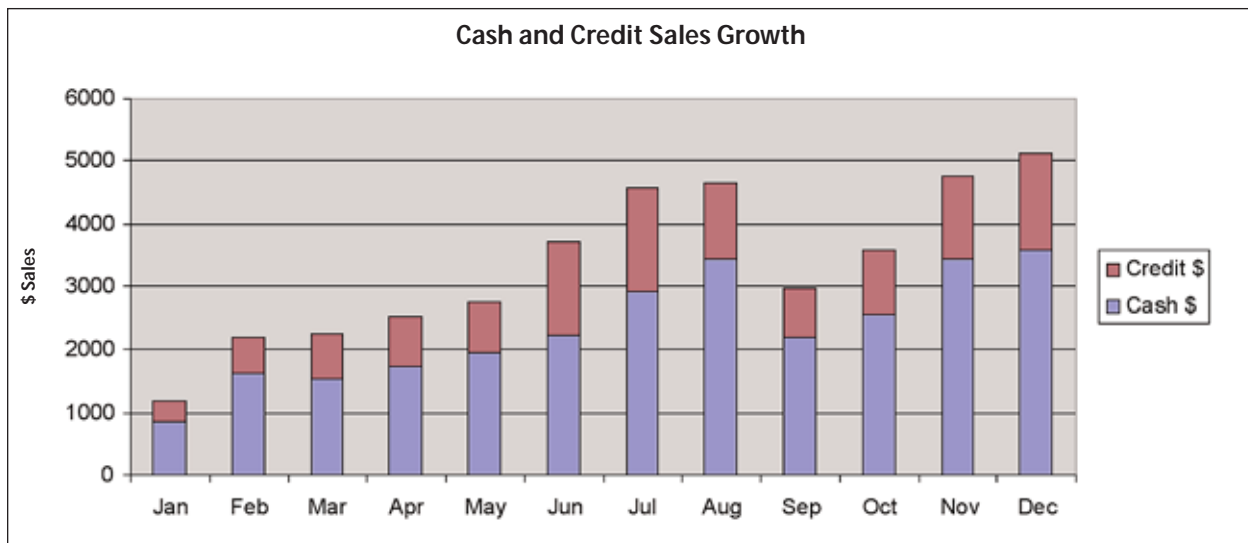
## Implementation

USA Technologies e-Port® credit/debit card readers were installed on nine machines in four cinemas at the end of 2003. These machines were located both within the concession area and back inside the theatres. Credit and debit cards were both accepted for purchase and the devices were connected to the USA Live® Network to enable card authorization and make remote monitoring possible.

In mid 2004, the sales results of the vending machines were analyzed by account. These results helped the bottler to determine where machines should be placed for higher sales volume potential. It was also determined that cinemas in less affluent areas were less than ideal candidates for higher priced vending. For these reasons, the number of machines and their locations were adjusted and the market test continued through year-end.

## Results

1. In total, the locations enjoyed a 139% growth in volume from first to fourth quarters 2004
2. For the four quarters of 2004, total sales on four e-Port®-enabled vending machines more than doubled from \$5,600 to \$13,455 per quarter.
3. Credit card sales in the 4th quarter of 2004 averaged \$323 per machine per month with the top-performing machine doing \$921 in the month of December.
4. The e-Port® credit/debit card solution was a hit with the customers, with almost one out of every three vending transactions (30% of total sales) being credit/debit by the end of the test.

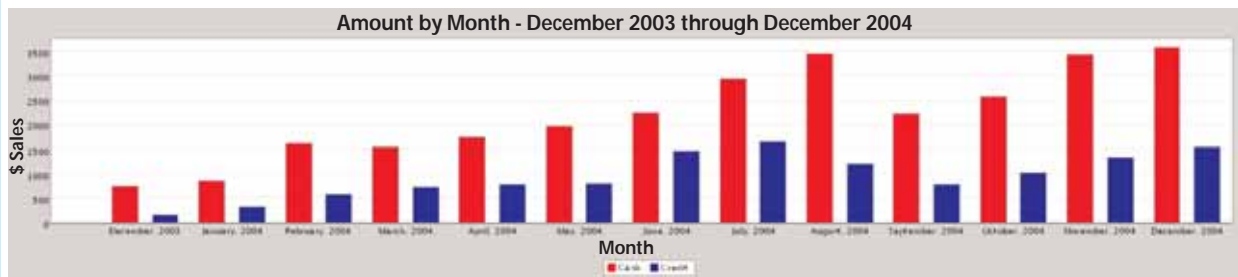


5. The cinemas found that customers liked the multi-vend feature that the e-Port devices provide, with over one out of every five transactions being a multi-vend, the ability to purchase more than one product per card swipe.

## Additional points to note

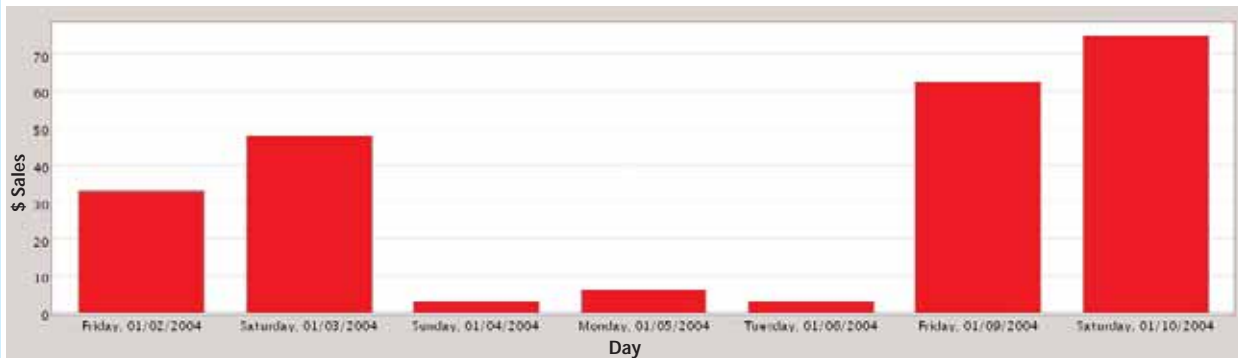
- A. The overall sales increase of 139% cannot be solely attributed to the popularity of credit card payments. Additional benefits came from operational improvements gained through access to transactional data, both cash and credit, resulting in increased overall sales.
- B. The bottler and the cinema chain were able to determine the best possible locations for vending based on information available through the USALive® web-based reporting system. Successfully vending beverages in cinemas depends largely on market demographics. It was found to be best suited to inner city and more affluent locations where the addition of credit/debit was found to be an essential component to assure success. The information needed to make additional placements and change current machine location was gathered through the USALive® web-based reporting system.

### Credit and Debit Transactions for All Machines in 2004

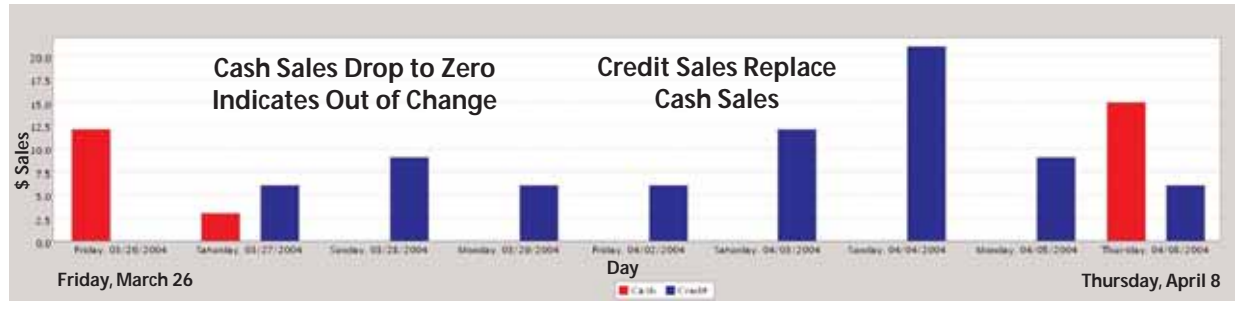


- C. The bottler was able to identify out-of-product situations and out-of-change conditions quickly and easily, using the data visibility features that come standard with USALive® web-based reporting. Sales were easily analyzed to ensure that machines were stocked to meet the peak demand times.

### Substantial Decline in Sales Indicate Out of Product Conditions

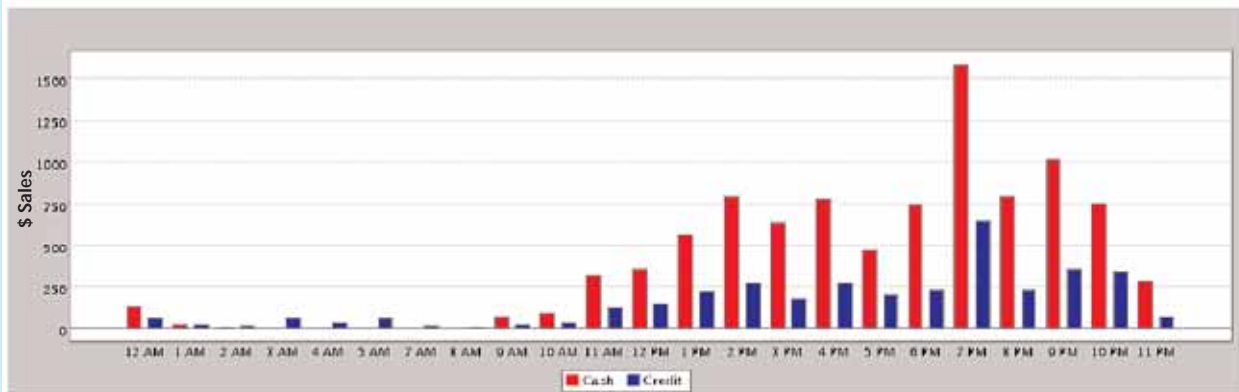


### Tracking daily sales by machine to identify out of change conditions.



D. Using USALive® the bottler is able to track sales by time of day or day of week over a specified period of time. The chart below, for example, illustrates that peak sales at the test sites occur in the 7:00PM hour and make up approximately 17% of total daily sales.

### Tracking Hourly Sales to Identify Consumer Purchasing Patterns



E. The results of this market test were found to be similar to many other locations in the USA Technologies client base that feature glass-front vendors.

## Scalability

Using results gathered during this market test, we conclude that:

- ▶ All cinemas located in affluent areas are good candidates for the addition of beverage vending and that credit/debit payments are a requirement to assure success.
- ▶ Machines with higher vend prices, such as the machines in this test, are ideal candidates for credit/debit card systems
- ▶ Any accounts that feature a glass-front vendor are good candidates for credit/debit card systems
- ▶ Machines located in the entertainment channel where credit cards are already widely used, are good candidates for credit/debit card systems; demographics should always be considered.
- ▶ The combined benefits of e-Port® used for credit/debit and transactional data used to improve operations, delivers substantial incremental operating profit

For more information contact a USA Technologies Sales Representative at 800.633.0340 or visit us at [www.usatech.com](http://www.usatech.com)