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Landmark EthnoVend Study Offers Closeup Of Consumer At Machine



UP CLOSE AND PERSONAL: Promising a better understanding of what motivates consumers by interacting with them at the vending machine with the launch of EthnoVend, Paul Schlossberg brings to the table a 30-year career in the food industry, including executive-level sales and marketing posts with Frito-Lay, General Foods and Dr Pepper.

CHICAGO — “Vending is at risk of being obsolete. It is an analog solution in a digital world,” cautioned D/FW Consulting’s Paul Schlossberg. The red flag, he said, is that vending unit sales have been flat to down over the past few years.

Reversing that trend must begin with a better understanding of actual consumer behavior at the vending machine, the retailing expert stressed.

Schlossberg led a seminar entitled “Understanding Consumer Trends and Behavior” at the National Automatic Merchandising Association National Expo here. The presentation introduced EthnoVend, a groundbreaking syndicated market research program that uses the “fieldwork” methodology developed by anthropologists (see VT, June).

Ethnography is an approach to understanding behavior by interacting with individuals in their everyday lives. It has been applied to consumer research by Hy Mariampolski, Ph.D., a social scientist who switched careers to market research and now serves as managing director of Quali-Data Research. He and Schlossberg, who had been members of the same fraternity in their un-

dergraduate days, recently compared notes at a reunion and recognized that they could pool their skills to develop a valuable service. They worked together to develop EthnoVend, and introduced it to the industry at the National Expo.

Ethnography, as applied to consumer research, is conducted by direct observation at the point of sale. The vending industry, which is somewhat opaque to the usual forms of consumer preference analysis, seems ideally suited to an approach based on studying patrons at the point of sale. The EthnoVend researchers will strive to gain a better understanding of consumer behaviors and expectations in the vending channel, identify emerging channel-specific trends and define needs associated with consumer purchases.

The speakers illustrated the methodology by showing clips from video recordings, including interviews with vending patrons on location, that they have been assembling and analyzing in order to gain insight on the thought processes that drive vending patrons as they make their purchasing decisions.

“By videotaping and analyzing shoppers’ behavior, and interviewing them as they shop the machine and make their purchase, we learn how to change things at the vending machine, based on what turns buyers on and off,” explained Mariampolski. “Are your machines in the right places within the location? Are your products arranged as effectively as possible? Don’t guess at it! What do your customers want? And are they finding it? This research can be done at your sites.”

Different kinds of retailer have developed specific techniques of displaying their wares, the researcher pointed out. “Look at retail shoe stores and men’s departments, and at the way things are organized there,” he instanced. “It’s carefully calculated and grouped logically. You have to work at it – and work at it and *work* at it – to drive sales. Watching your consumer can provide insight you’ve never had. As Yogi Berra said: ‘You can observe a lot just by watching.’”

Mariampolski authored the book *Ethnography for Marketers* (SAGE Publications USA, Thousand Oaks, CA, 2005), an overview of ethnography and a practical guide to conducting research through fieldwork. He explained that ethnography has a rich heritage and was developed to study primitive cultures through direct observation and long-term “live-in” projects in the early 20th century. First practiced by pioneer anthropologist Bronislaw Malinowski, the technique also was used by Margaret Mead and Franz Boas. Ethnography was first applied to market research in the 1980s, enabling marketers to develop products and services that speak to the customer’s “inner experience.”

The speaker emphasized that, while the EthnoVend study will shed new light on what motivates the vending consumer in front of the machine, every operator should understand and address the major questions of how and why consumers as a whole are changing.

“Customers’ biggest frustration wraps around time; time is more important than money today,” Schlossberg stated. “They are also far less loyal; if something serving me is not meeting my standards, I’m going to kiss it goodbye. Change is a challenge, but look at 7-Eleven, McDonald’s, Starbucks, Wendy’s and Sheetz convenience

stores. Their customers' demands changed, so they've changed – and they keep on changing, to continue to bring people through their doors or their drive-through."

Faced with new demands from a less loyal customer base that has far more quick-service options than ever before, McDonald's responded by enhancing the décor in its facilities, expediting ordering with self-serve kiosks and, increasingly, staying open 24 hours a day as a growing contingent of mobile consumers exhibits increasingly unconventional dining patterns.

The fast-food giant also upgraded its coffee program to profit from specialty coffee's move to the mainstream, and has seen a 9% lift in same-store sales over the past year. "The expectations of your customers are being conditioned by competitors like McDonald's, which is making its decisions based on what their customers want," Mariampolski advised.

Schlossberg also praised the business model of the Sheetz convenience store chain, which has built a sterling reputation on its upscale, made-to-order foods and full range of specialty coffees and espresso-based beverages. And notwithstanding its outstanding track record, founder Stan Sheetz views the c-store chain as a continually evolving enterprise: "We will create a business that will put Sheetz as we know it today out of business," he has vowed.

Convenience store icon 7-Eleven has kept pace with customer demands by placing a strong emphasis on expanding its hot foods menu. It also finds ways to play up the fun factor, as consumers increasingly value entertainment as part of their shopping experience. For example, it recently transformed several of its stores into "Kwik-E-Marts," the fictional chain of convenience stores made famous by the animated television series "The Simpsons." During a limited-time promotion held in conjunction with last summer's release of "The Simpsons Movie," 7-Elevens across North America also sold various products well known to Simpsons aficionados, including "Squishee" frozen drinks, "Buzz Cola" and "Krusty-Os" cereal. Vending operators should not underestimate the power of the entertainment their machines can provide, Schlossberg stressed.

The advent of the drive-through window marked a radical change for restaurant operators and created new expectations for speed and convenience. Today's consumers bring those expectations to every retail environment they patronize, Schlossberg pointed out. Fast-food restaurants raised the bar for time-pressed consumers by adding a second drive-through window to speed operations, and later deployed faster payment systems, including credit card acceptance. They facilitated "dashboard dining" by creating new menu items, many of which were "one-handed foods" and created combination meals to speed up the ordering process and convey value.

"Fast-food restaurants realized that they had to speed up service and improve the customer experience, and your customers are their customers, too," Schlossberg commented. "Vending and on-site foodservice operators don't have a drive-

through window. You have a 'walk-through' business. It's time to speed up service and dramatically improve the customer experience."

According to Schlossberg and Mariampolski, vending and foodservice operators should pay heed to a dozen trends that will necessitate change in the way they do business. "If we don't change, we'll be a less and less popular choice. Your competition is fast food and c-stores. You have to be the choice of first recourse, not the last," cautioned Schlossberg. The trends are:

1. GREEN IS GOOD.

Customers who are concerned about the environment are no longer a minority, and their numbers will continue to grow. Operators should do their part by supporting "green" initiatives, including recycling programs, buying locally and participating in sustainable supply chains wherever possible.

2. CASH IS GONE.

"Young people don't carry cash, and vending is a harder purchase if we don't take plastic," Mariampolski emphasized. "People are using cellphones instead of currency. Cash and check payments account for less than half of purchases; the rest is plastic. Which is faster? Which is preferred? Do something about it!"

He added that students today increasingly have their college ID cards in hand, loaded with expendable dollars, and vending operators should be prepared to accept them.

3. ON-THE-GO EATING.

Takeout dining is exploding, and restaurants with drive-throughs are capturing a bigger share of the away-from-home market. Another on-the-go consumer trend is that "as meals demise, snacks arise." On average, consumers eat 4.3 times per day and many are eating six times, according to Schlossberg. The food marketing expert also pointed out that 33% of consumers eat two or less "square meals," 17% skip lunch once a week and 13% skip breakfast.

"Vending fits perfectly into this trend of smaller, more frequent meals. Win the afternoon snack; that's when people – 48% of consumers – say they are most willing to eat something 'less healthy.' But, by all means, provide items that are 'more healthy' – which leads us to the next trend," Schlossberg advised.

4. THE OBESITY PROBLEM.

As the media spotlight continues to shine on Americans' growing waistlines, operators must determine how to provide more healthful choices. For example, "100-calorie packs," which have taken hold across all retail channels by providing portion-controlled indulgence.

At the opposite end of the spectrum, though, "supersizing" remains a popular quick-service restaurant trend, appealing to a diverse consumer base that focuses more on value than on diet. These customers cannot be overlooked.

Fast-food chains are addressing both extremes, he noted, instancing the Subway sandwich shops offering "Fresh Fit" meals that meet

American Heart Association guidelines, while continuing to offer upsized favorites. Vending operators must follow suit.

5. "DON'T HAVE TIME."

Vending machines are arguably the most convenient food source for time-crunched consumers. Faced with larger workloads borne by a smaller workforce, employees are arriving at their jobs earlier and leaving later. This presents a prime opportunity for vending operators. According to Schlossberg, quick-service restaurants experience 36% of their business from 11:00 AM to 2:00 PM, golden hours to target at-work consumers; 30% of QSR business is from 5:00 PM to 8:00 PM; and 18% of patrons visit quick-service restaurants from 5:00 AM to 10:00 AM. Vending operators who step up to the plate can capture more business across all dayparts by familiarizing themselves with what their patrons are buying elsewhere, and finding ways to bring it to the vending bank.

6. IT'S ABOUT THE EXPERIENCE.

"People want more than they buy; the product is more than what is sold," emphasized Mariampolski. "Experiential marketing" is increasingly important across all retail channels, and can work to the operator's advantage because consumers are willing pay a premium for a positive experience.

It's important to recognize that repeat purchases must be earned, and delivering "wow" factor along with the product can play an important role. "You want people to say 'I just had a great meal at the vending machine,'" he urged. "Look at the iPod. It's dynamic, interactive. Vending is still static; there are great opportunities to make it a dynamic experience."



FIELD WORK: Lecturing at Purdue University, where he earned his Ph.D. with a specialization in community studies and sociological research methods, Mariampolski shares insight as a pioneer in applying ethnographic methods to marketing research that he anticipates will revolutionize vending.

7. GAS PRICES HURT.

With higher fuel prices taking a bite out of discretionary income, vending consumers are likely to cut back on snacks, bring brown-bag lunches and seek out a better deal down the street, according to Schlossberg. [Editor's Note: probably not if they have to *drive* down the street!] It's more important than ever to communicate value, provide combo meals and find creative ways to inspire customers to patronize the vending machine.

8. CUSTOMERS COME FIRST.

"A business is in business to serve customers," emphasized Mariampolski. "That means being 'customer-centric,' selling what they want, no out-of-stocks and no machine downtime." In convenience stores, 32% of customers seeking a particular candy and 27% shopping for a favorite snack will take their business elsewhere if the item they want is not in stock, the market researcher noted.

He pointed out that the 400 largest U.S.-based restaurant chains reported a 6.8% sales lift over last year, with sales growth outpacing growth in the number of stores. This suggests that chains are focusing more on improving their approach to serving customers at existing sites than on expansion – and that the strategy is working.

Schlossberg informed the audience that the "super-heavy" c-store user spends \$7.41 on average per transaction, while average customers spend \$6.36. Average customers visit a c-store 7.7 times every 30 days, but super-heavy users make 17.4 visits.

"One heavy user equals three medium users and 14 light users," he stressed. "What do you know about your most loyal customers, your heavy users? You need to hug them and tell them you love them, and know what it will take to maintain their loyalty, because they keep you in business."

Schlossberg credited major universities for changing their approach to student dining by centering menus around the students they serve. At the University of California, Berkeley, for instance, foodservice administrators recognized that there is no longer a traditional lunch daypart, that students want smaller portions and that they are more willing to experiment; and they adapted their offerings accordingly. Likewise, Johns Hopkins University has revamped its menu approach, allowing students to be more involved in creating their own meals and incorporating more fresh produce in its menu, in response to their requests.

9. BREAKFAST ATE LUNCH.

Breakfast away from home is a quick-growing segment, and as more time-crunched consumers set out for work earlier, fast-food giants are re-

sponding by opening during the pre-dawn hours. As breakfast's popularity continues to rise, quick-service chains are also offering breakfast throughout the day, and upgrading their coffee programs to vie for the specialty coffee trade, which has moved from a niche to the mainstream. "McDonald's is making a major push into the coffee business with gourmet coffee, and a recent survey showed convenience stores see them as the biggest threat to their coffee business. They are your competitor, too," cautioned Schlossberg.

Breakfast at onsite foodservice locations in business and industry accounts for 36% of food sales. The good news for the industry is that vending is the top source for morning meals, with 50% of purchases made from vending machines.

"What can you do to take advantage of the breakfast phenomenon?" asked Mariampolski. "People are commuting to work earlier because there are more cars on the road, and they're hungry when they get there. Breakfast used to be the 'skip' meal, but not any more." The speaker cited NPD Group market research indicating that 33% of morning meals are consumed in the car, and 30% of lunches are eaten on the road. With handheld convenience taking on more importance, it's imperative that operators add interest to their sandwich offerings, going beyond the conventional two slices of bread to the wider spectrum of calzones, paninis, quesadillas, burritos, fajitas and brioches, recommended Schlossberg.

10. OLD, SLOW AND BORING.

"The ability to attract consumers is more and more challenging," commented Mariampolski. "Pepsi is changing its packaging every few months to keep the attention of its customers; Starbucks and Dunkin Donuts introduce novelty drinks and promote them all the time. To what extent is novelty driving your business? Do new things to add excitement and let them know you're doing them."

11. FRESH IS BEST.

Quick-serve restaurants and convenience stores have a competitive advantage over vending because they can assemble freshly made foods, to order, in front of the customer. This should serve as incentive for vending operators to be creative in devising ways to appeal to their customers' craving for items they perceive as "fresh." New competition in the snack category, beyond vending's conventional bagged salty snacks and cookies, include White Castle's cheese sticks and McDonald's snack wraps and fruit-and-yogurt parfait. "Think about how freshness is an opportunity," suggested Mariampolski. "Park yourself at the door at lunch and see

how much business you're losing. What are they coming back with, and how can you bring it to them?"

12. CUSTOMERS GOING AWAY.

Consumers are fickle and quick to take their business elsewhere, and this can work to the vending operator's advantage or disadvantage. Detracting from consumers' satisfaction with their dining experiences, said Schlossberg, is their boredom with patronizing the same place, their perception that service is too slow, lack of menu items that meet their dietary requirements, and too few "to-go" options. By answering these concerns, vending operators can position themselves as a destination, rather than a choice of last resort.

Many potential vending patrons believe value, service and quality are better offsite, and it's the operator's job to sing the praises of vending and find ways to convince them otherwise. "If you go to the same restaurant often, the staff knows your name and your favorite drink," noted the speaker. "We're unattended, so we have to adapt to bring them that experience, while being faster and more convenient."

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In summary, Schlossberg emphasized that vending operators can transform their businesses into retail success stories by taking the extra care to make their products appealing, create an interesting environment, entertain and save time for the customer, make the service personal and responsive, and turn convenience into value.

"I view it as a huge positive for us to have the opportunity to master the changing trends, not be victims of them," noted Schlossberg. "Anticipate change; it's too late if you react after the fact. You're running a 'walk-through'; the fast-food folks realized they needed to get to credit cards to speed the drive-through process. You can get great ideas from other retailers."

The speakers showed participants video footage they recorded at a vending bank in a busy bus terminal waiting area. The waiting lines to board the buses completely blocked access to the machines, rendering them unusable throughout the majority of the day. "This is easy to fix, but you wouldn't even know it was going on if you didn't observe it in action," noted Mariampolski. "Ethnography allows you to observe the entire sale process in action and determine what's working and what's not. Our study is going to provide new insights that will work to the whole industry's advantage."

Schlossberg and Mariampolski are seeking operators, suppliers and distributors interested in participating in the EthnoVend syndicated market research study. Schlossberg can be reached at paul@dfwconsulting.net or (972) 877-2972; Mariampolski at hy@qualidataresearch.com or (718) 499-4690.