



# Navigating the Now: The Increasingly Important Role of Vending and Micro Markets for CPG Brands.



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## Abstract

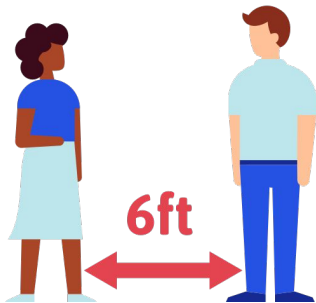
Front & Bauer was founded on the concept that every business deserves to have a partner working hand-in-hand to create a sustainable plan for brand growth. While working in the food and beverage industry for the past 13 years, we had the opportunity to work with many great CPG brands, at every stage of their life cycles, from global, household brand names to start ups in search of their first customer. We've worked with brands that made it, but way too many brands with passionate founders, and a great product which failed. Over the years, we've had a chance to see what worked and what didn't, even having plenty of opportunities to build relationships with founders and dive deep into the details of their experience. With the knowledge obtained, and a reputation for a deep understanding of the marketplace, Front & Bauer fills the void of a Chief Strategy Officer, a key to the growth of your business. We're not focused on things like "growth hacking," we don't focus on abstract metrics to create the illusion of success, we work with companies (more importantly, we work with people) to create a sustainable strategy to scale your brand. Whether your end goal is to scale a family company to pass on for generations or take a start up brand to acquisition, Front & Bauer is the perfect strategic partner.

## Introduction

At the dawn of the COVID-19 Pandemic, there were several movements underway which dominated the Convenience Services industry. One of those movements was a push by more vending operators to allow more traditional vending machines to accept cashless payments including credit cards and electronic payments like ApplePay, and the second was offering more and more snack and beverage options in what were commonly referred to as "Pantry Services." The effects of the global pandemic on both of these trends has been wide-reaching. It has greatly accelerated the transition to more vending machines accepting cashless payments, and has taken a great toll on the Pantry Service industry, with some operators seeing as much as a 90% drop in sales versus the same time period in 2019. Both of these things have created huge opportunities for CPG brands, with opportunities being created in areas (including the workplace), especially those where unit price was seen as a barrier to entry. In this document we'll dive deep into the reasons why both the vending and micro market industries will play a key role in the sustainable growth of your CPG brand.

# Safety as a Service: Micro Markets in the Workplace

If 2020 needed to be summed up in two words when it comes to the workplace, it would be “hard reset.” If you work in an office, that concept is very easy to understand. It isn’t hard to remember creating a break area which encouraged meaningful collisions between those working in an office was considered the gold standard in any industry; where packing as many people around a lunch table, sharing ideas and communal snacks was the norm - but this year, all of that has changed. Nearly overnight, safety, which was something that was almost an afterthought, rose to the top of everyone’s list of priorities. Even before offices began to shut down across the country, calls were made to remove things like communal snacks and shared water systems from offices. As we turn the calendar from 2020 to 2021, a new dimension has been added to the workplace with needing to account for safety in their operating budget. With this money needing to come from somewhere, things like pantry service programs have taken a huge hit, leaving workplaces to scramble to be able to safely offer the amenities their teams have come to expect at little to no cost to employers - this has opened the door for employee-funded micro markets and vending machines to find homes in more and more break rooms.



## Budget Cuts Create Spending Shifts

As food and beverage budget cuts pile up at companies, the needs and wants of companies’ talent still remain the same, or have become more demanding. The good news for everyone is over the past few years, micro markets have made the convenience of a full retail offering available in a traditional workplace break room. These solutions will allow workplaces to meet the food and beverage needs of their employees at no cost to them; and while in the past, “free” was never a top selling point for micro market operators, times have changed. Even the largest companies like Compass Group and Aramark are touting the fact that these markets can be completely free to the company providing it. Over time, these shifts in how companies approach workplace snacks and beverages will become permanent, and those CPG brands who are able to gain an early understanding of how to be successful will be the brands who have a huge advantage in this new retail arena.



## Premium Products, Premium Prices

Even when offices were in the habit of regularly stocking their micro kitchens with “everything” their teams could want, there were still some products that didn’t make the cut. Budgets, usually managed on a dollar amount per person, per day basis; and many times when premium products were presented to companies, they had a hard time fitting into this model. With the shift in budget responsibility to the end user, the workplace is now back in play for these products, and the door is open to sell them at the premium price which they command. In addition to traditional snack and beverage products, companies can also begin to look in to offering key items employees use at home allowing even more big-ticket CPG items to be offered.



## Touchless Technology

Over the months since the dawn of Covid-19, the terms “touchless” and “contactless” have found their way into just about every industry. The workplace pantry is no different. While before 2020, the micro market environment was nearly always defined by the presence of a dedicated kiosk, but the shift to “touchless” as led to the rise of the Nano Market - bringing the full micro market experience to each end user’s smartphone through a dedicated app. This further personalizes the experience for the user, and promotes the collection of smarter data for the operator and brands they feature. Just as it has changed how people shop in grocery stores, this touchless technology will change the way people eat and drink in the workplace.

# Post-COVID Vending: A Cashless Revolution

For years, the traditional vending industry was undergoing a painfully slow shift. A shift that would cause them to invest in upgrading equipment that many of them had been steadily earning revenue for years. A shift that they were guaranteed would pay for itself many times over in the long run. In January and February of 2020, the largest issue facing those vending operators who had not implemented cashless technology into their businesses had been more and more end users no longer carrying cash and/or change. In March 2020, everything changed. The Covid-19 Pandemic created a large segment of the population which became completely opposed to using cash in order to mitigate their exposure to the novel coronavirus. This shift in the end-user mindset caused vending operators to finally accelerate their timeline for upgrading their equipment to accept cashless payment methods. While the cashless revolution was born out of a need to make sure that vending was accessible to more end users, it has created a huge opportunity for brands previously excluded from being available from vending machines because of factors like a premium price point. With that barrier now removed, the vending machine will emerge as an important marketplace for many CPG brands.

## A New Mindset



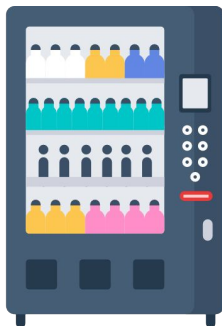
In the past, the glass barrier of a vending machine was often viewed as a barrier between the end user and the products they were attempting to purchase. This was most-often viewed as a negative, a point of friction in an end user being able to physically make contact with their item prior to purchase. Almost overnight, that mindset changed. The glass barrier, previously seen as a negative became a positive. What was previously preventing the customer from their purchase was now protecting them from all outside elements, including the novel coronavirus. Getting a bottle of water from a vending machine now gave people a feeling of safety versus a product in an open cooler, with which previous customers may have had contact, or even worse, been exposed to airborne contaminants. This perception has led to vending operators both expanding their offerings, and taking greater hold of their new responsibility when it comes to safety. Out of the negative circumstances with which they were presented, the vending industry was quickly revolutionized.

## The End of Empty Pockets



While there are some barriers of vending machines that could best be described as perceived, there was one physical obstacle that had prevented customers from using vending machines throughout time, no cash equaled no sale. And we know that it is a fact that Millennials and Gen Xers are notorious for carrying little or no cash. The cashless revolution has eliminated that as an issue. These machines that previously required the use of small bills or change, no accept any credit or debit cards, and even ApplePay. While the obvious result of this change is the fact that now vended products become accessible to a much wider audience, the number and price point of these products is able to be set much higher than ever before, therefore opening the door for premium products to be offered in traditional vending.

## Limitless Vended Options



When we think about the products that can be offered through more traditional vending, we obviously start at drinks and grab-and-go snacks, but in recent years many more items have found their way to vending machines. From Heirloom Apple Salads to Wireless Apple AirPods, the range of vended items has grown immensely; and the places vending machines have popped up has also grown. In addition to hospitals and airports, the cashless vending machine has reemerged in the workplace. As employees return to the workplace, and they begin to find some sense of normalcy, they will look for options; and the vending industry will be ready to meet those needs.



## Conclusion

In respect to CPG Brands seeking sustainable growth, the micro market and vending industry is not a hidden secret nor magic bullet for 10x growth in the next two months, but it is a re-emerging area of which brands need to be aware. As some of the behaviors established during the Covid-19 Pandemic become part of our daily lives, we'll see things that were normal prior to 2020 gone or changed forever, and things born out of necessity will evolve into things we cannot manage being without. Over the next 24 months, being able to be a leading brand in these areas will create the type of growth that will benefit everyone involved. For consumers, it will provide more access to the brands they truly want; and for CPG brands, it will give an additional outlet to reach these consumers. As both placements and offerings for vending machines and micro markets are expanded, we will continue to limits of what the industry is capable of pushed further and further. Attendantless retail in lobbies and offices, whether its a micro market, nano market or vending machine, the presence of it will be more common than a lobby with limited or no retail options. It is now possible to provide all of the needs for which someone would have to venture outside on site or even on demand. What may now be viewed as being done primarily for safety reasons, will be looked at as being simply more convenient in years to come, and therefore these changes are here to stay.

*Front & Bauer is an organization committed to strategic problem solving, partnering with brands looking to achieve sustainable growth. Our Sustainable Growth Strategists focus on the needs of our clients to ensure the plans we create are tailored to their unique needs. All of the facts, findings and opinions contained in this white paper are solely those of Front & Bauer and the Sustainable Growth Strategist by whom it was published, and is in no way influenced by any outside sources.*