

Technology enables a young entrepreneur to carve a niche in the competitive Twin Cities

Steve Marx has built a 10-route operation from scratch in 10 years; an early investment in software played a key role, and he continues to develop operating efficiencies using state-of-the-art technology.

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by Elliot Maras

Is the rising cost of doing business keeping young entrepreneurs out of the industry these days? The question was posed, in exactly those words, in a 1994 feature article about two men in their early 20s who, with limited resources and no vending experience, established a small vending business in the Minneapolis/St. Paul, Minn. metroplex in a two-year period. Eight years later, the question can be answered more definitively with a visit to that operation, Royal Vending. What began as a part-time bulk vending business in 1992 has grown into a 10-route, full-line operation serving the Twin Cities area. The Royal Vending story illustrates that even as technology has raised the cost of entry into the business, automatic merchandising continues to provide dedicated entrepreneurs the opportunity to succeed.

Royal Vending's story also suggests that technology facilitates automatic merchandising start-ups more than it impedes them. This past year, under the direction of company CEO Steve Marx, Royal Vending has implemented handheld computers and computer-interfaced currency handling. In the meantime, Marx is keeping an eye on DEX/UCS-based, curbside machine polling. He believes technology, in conjunction with other management practices such as the use of machine planograms, will allow the company to grow faster than start-ups of yesteryear, which depended more on labor.

Efficiency is the future

All managerial employees wear more than one hat at Royal Vending Rose Jester is both office manager and money room manager.

"Efficiency is definitely the wave of the future," Marx said, seated in his office in a 10,000-square-foot building he rents in suburban Maple Grove. The planograms and computers were one-time investments that have made it possible to add routes with minimal start-up costs. "The alternative is to bring on more people," Marx observed. "I'd rather have fewer people and more technology. Once I buy it, I own it. It's not an ongoing expense like labor. It's so easy for us to start another route."

This past year was a pivotal one for Royal Vending. Besides implementing route handhelds and machine planograms, the company also switched to ESS salty snacks, implemented dollar coin payout in all bill changers, and installed a fully

computerized currency handling system with a dual-pocket bill sorter. And if that weren't enough, the company also recently completed its first acquisition, Bro-Midwest Inc. in Golden Valley, Minn.

Marx's one- to two-year goal is to reach the \$5 million revenue mark. The immediate order of business, however, is to integrate the acquired business and fine-tune operating efficiencies.

A methodical approach

From the very beginning, when he and his one-time partner, Ross Herman, came across an ad for coin-operated breath analyzers, Marx has taken a methodical approach to the business. In researching vending opportunities in 1992, Marx and Herman came across bulk vending.

Twelve years ago, Marx graduated with a law enforcement degree from a local community college and took a job in law enforcement. He went on to get his bachelor's degree in business and marketing from Concordia College of St. Paul. His friend, Herman, earned an accounting degree at the University of St. Thomas and got a job as an accountant.

They found a fairly wide open market for small bulk vending locations, and within a year had placed about 300 machines. At the request of a couple of customers, they added cold drink machines. From there, they began soliciting small accounts for refurbished, full-size snack and soda machines.

A switch to full-line vending

In less than one year, the business had grown to the point that Marx was able to quit his day job. Herman shortly joined him and the duo rented a 3,000-square-foot warehouse. They decided viable, full-line vending locations were easier to find than viable bulk vending locations, and began phasing out of bulk vending. Two years later, they were servicing 200 snack and soda machines, each working 70 to 80 hours a week. They then took the crucial step of hiring a full-time employee.

That first hire proved a big eye opener for the entrepreneurial pair. The employee lasted one day. Placing a classified ad in the newspaper yielded another unsuccessful candidate. Eventually, through word of mouth, they managed to find a reliable employee. This employee made life easier for them, but they realized labor would be an ongoing challenge if they wanted to build the company.

Early growing pains

Route driver Mark Swinnerton places food in a refrigerator and freezer in his truck. Steve Marx designed trucks to maximize carrying space.

"That was one of the most difficult periods," Marx recalled. "You're stretched thin and that employee has you over a barrel. Every time you step into a truck (as opposed to attending to managing the company) you lose money, but it needs to be done."

To finance their growing business, Marx and Herman sold shares to outside investors. Herman, being an accountant, was able to put together a professional prospectus. Average shares were between \$5,000 and \$20,000.

Herman also began looking into software that would enable them to better control inventory and accounting.

Early software investment

For an operation that did not even have two full routes, the software posed a big investment. But they believed there was a lot of opportunity to grow the business if the right controls were in place, so they invested in a system from Rutherford & Associates Inc., which has since become MEI Easitrax[™] The system helped them to better track inventory and collections. It did this by allowing them to check machine meter readings against cash collected.

The partners split

About three years ago, Herman sold his interest to Marx in order to pursue other business interests. Marx also bought out the outside investors, and was able to secure additional financing from conventional lenders.

The company grew at a rapid pace as the local economy expanded through the mid-1990s. In the meantime, several long-established, local independents consolidated during this period, creating what Marx described as an opportunity for newcomers such as himself.

Marx also joined NAMA, the Minnesota Automatic Merchandising Council, and the Better Vendors of America (BVA), all of which he has found helpful. He has found NAMA's operating ratio report useful for providing financial benchmarks, and NAMA's employee manuals helpful in developing his own human resources materials.

In retrospect, Marx believes the software investment was the right thing to do in 1995. "The longer you waited, the more you would pay," he said. "It has helped build the business."

Sales data proves useful

Marx used historical sales information in deciding what products to purchase. With sales data in hand, he devised an ordering system by which orders were placed weekly for each individual route.

Marx grouped all inventory by truck, so that all the driver did was move product from his preassigned, locked storage area in the warehouse to his truck.

This method of weekly ordering by truck continues to the present day. Marx claims it minimizes the amount of inventory warehoused and saves on labor costs.

Tracking service costs

Marx can oversee all of his currency counting and sorting on a desktop computer. The software also enabled him to review his service costs in relation to sales. One report indicated how much revenue each machine yields in relation to each service visit. Marx targeted a service cycle at \$100 per machine. A machine that did \$50 per week, for instance, was scheduled for service once every two weeks on average.

"That report has been very beneficial to us," he noted. "This business is about managing, control and routing."

Determining location outlays

These reports became especially crucial as Royal Vending began taking on larger accounts, some with as many as a few thousand employees. Marx learned early on that nothing makes an account unprofitable faster than adding a food machine. He also learned that sales, not population count, is the most important indicator as to whether an account can justify a food machine.

Estimating location performance

Operators who base equipment placements only on employee count are making a big mistake, he said, since that is not the only factor that impacts sales. Experience has proven that an account with 50 blue collar males, aged 30 and under, will most likely generate higher sales than one with 200 white collar women. Men under 30 are far less likely to brown bag than those over 30 and are less health conscious.

On average, Marx looks for a location to do \$1,000 in combined soda and snack sales and \$400 in cold food sales as an absolute minimum for having a food machine.

As the company grew, Marx attempted to expand into OCS. Coffee prices were high in the mid-1990s, and he did not have the resources to allocate dedicated OCS

trucks. After two years, he discontinued the OCS service and has since opted to partner with a local OCS provider called Coffee Mill.

Truck Inventory organization plan

Marx also devised his own truck inventory organization plan and retrofitted his trucks accordingly. The cab contains wooden shelves on both sides for holding dry goods. Another area for stacking beverages is enclosed with long metal poles. A full-length refrigerator and full-size freezer are positioned opposite each other in the middle of the truck.

Marx installed electrical inverters that power up the trucks during the day, even when the engine is off, and plug in at nighttime to recharge, allowing for temperature control when the engine is off.

All managers wear different hats

Because the company was small, Marx wanted his managerial people to be able to handle as many tasks as possible. A key hire was office manager Rose Jester, who in 1997 brought experience in cash handling and customer relations from the banking industry. Marx noticed that as routes were added, Jester had to spend more time keying in information from route tickets into the computer. In the interest of alleviating this task, he began to look at route handhelds. He stayed with Rutherford & Associates and went with their handheld software.

Marx purchased four Symbol handhelds at \$300 apiece on eBay, the Internet auction site. Between Marx and his warehouse manager, Lewis Jensen, they were able to master the handhelds and teach the drivers how to use them. Drivers spent about two hours learning the handheld. A follow-up session was held two weeks later for advanced operation and additional features.

Handholds save the drivers time

Lewis Jensen, warehouse manager, taught the drivers how to use handhelds. Here he loads a Hershey candy machine in the warehouse.

Testing the handheld on one route, Marx realized an immediate time savings. It saved the driver about 40 minutes a day keying in the product information into the handhelds instead of filling out route tickets. It also eliminated the time it took drivers to write notes to the office to change orders; all of this was inputted in the handheld.

At the end of the day, the driver placed the handheld in a cradle which downloaded the data to the accounting and inventory systems. This relieved the office of the task of keying in data from the route tickets.

Planograms prove useful

As electronic notebooks, the handhelds also gave Marx the ability to supervise product placements in the machines. The reports at the end of the day allowed him to see what the driver placed in the machine. This capability encouraged him to implement planograms for the snack machines. "We are able to go into the computer and see what they used the week before and tell them exactly what they need," Marx said.

The planograms mandate core items and rotated items, and also allow a certain number of wild card selections for drivers to make themselves.

With the handhelds, Marx can mandate a menu change on all snack machines with the ease of hitting a button. The change is simply entered into the back-end system and the new product is entered and the old one deleted. He can also send memos to the drivers letting them know the changes. "Before, we couldn't do master override changes," he noted. "We left it up to the drivers, and it wasn't getting done."

The handhelds also provided more timely data on what was and wasn't selling in the machines. Marx found these reports very useful in responding to customer requests for poor selling products.

Marx sees a future in DEX/UCS

The success with the handhelds has made Marx interested in using DEX/UCS, the electronic data standard that enables machines to report transaction data to management software. Marx is presently testing the technology. DEX/UCS will enable the driver to plug the handheld into the machine and immediately download all the transaction information, sparing him the effort of keying in the data himself.

The main benefit DEX/UCS will bring, noted Marx, is cash accountability. The DEX/UCS download will let him know how much cash was taken from the machine. The office manager will then be able to compare cash collected from the machine against what the driver returned to the money room.

Snack planograms are uniform

DEX/UCS will also provide more accurate column level sales data. Marx uses item level sales information to help him know what quantities to purchase. He does not plan to custom menu individual machines. His snack machine planograms are uniform for most locations except for schools. He disagrees with those who believe there are any significant product preference variances among locations.

"If you're hitting the core items, you will make the sale," he said. "We care (about the product mix), but we don't over-analyze it."

Curbside polling coming

Once his machines are all DEX/UCS-enabled, Marx looks forward to progressing to the next level of automated data--curbside polling. MEI Easitrax[™] has introduced a system that allows the driver to download the data from the truck. The driver will know what products the machines need before leaving the truck. Marx estimated this will save the driver 25 to 35 percent of their time.

An investment in a new currency handling system also brought increased savings to Royal Vending this past year.

Convinced that dollar coin payout would raise sales, Marx decided he needed to accept higher denomination bills in his bill changers. This called for a currency handling system that would be able to accept different denomination bills more efficiently.

Networked money room

Operations manager Jack Jensen loads a snack machine. The company has moved to all LSS, and has maintained snack velocity.

Marx interfaced the currency counter/sorter and coin counter with his vending software, enabling the money room to oversee counting and sorting on a desktop computer screen. He also invested in a Cummins dual-pocket bill sorter, which can count and sort different denominations simultaneously. The old single-pocket sorter required the counting and sorting processes to stop every time a new denomination had to be sorted.

"It speeded up the process a phenomenal amount," Marx noted.

Dollar coin payout Issues

Dollar coin payout in the bill changers has reduced the amount of bills that need to be sorted, he noted. This, in turn, has reduced the amount of service the changers require. All the changers accept 1s, 5s, 10s and 20s. "We've had a much bigger infusion of 5s, 10s and 20s since we went to the dollar coin," he said.

The software allows Marx to determine individual par levels for all of the bill changers. The funds are allocated in the money room and placed in bags designated for each driver. A management employee records when the bag is given to the driver. Marx believes in balancing the changer funds every week.

Jester, the office manager, burns a CD of all computer files at the end of the day and that disc is stored at a safe location off the premises. This ensures that critical information will not be lost in the event of a computer problem.

Eliminate quarters? Client objects

When he converted changers to dollar coin payout, Marx also decided to eliminate quarter payout in order to prevent the possibility of the coin going into the wrong tube.

This created a problem in one account that wanted quarters back. In this account, Marx realized the quarters were being used for other purposes. Hence, he refused the request, which cost him the account.

Conversion to LSS snacks

This past year, Marx converted all snack machines to LSS. This brought an immediate sales lift; much to his surprise, product turns did not drop at all. This taught Marx an important lesson about value pricing.

"I don't think consumers are afraid to spend the money," he said. "I think the operators are afraid to put them (higher priced items) in there." Marx is now expanding into LSS candy products as well.

Recently, Marx has noticed success with salty snack products packaged to fit into candy slots, such as Kar Nuts Sweet & Salty. "If a manufacturer can make something fit in a candy coil, he has a better chance of getting it in a machine," Marx observed.

While LSS has proven itself in the snack business, Marx is less convinced about the benefits of larger size cold drink products. He noted the consumer gets a better value paying 60 cents for a 12-ounce can than \$1.25 for a 20-ounce bottle. Fortunately for Marx, the bottlers don't see it this way.

Marx considers it a blessing that bottlers are so anxious to market the bottles. He contracts bottlers to fill dedicated bottle machines.

Upgrading coffee machines

Jim Broberg, having sold his company to Royal Vending, now works in customer service, part time.

Marx has also made some adjustments recently in his hot beverage business. He realized this past year that he was making a mistake doing what a lot of his competitors were doing: buying on price. This was hurting sales.

To remedy this, he introduced Sara Lee Coffee & Tea's Northwest Dark Roast and Vienna roast. This has helped improve his hot beverage sales, although he recognized that it did take time and money to convert all the machines.

Many of the changes implemented in the past year--handhelds, planograms and computerized currency handling--were designed to facilitate additional volume. Marx's first acquisition, completed several months ago, put his various efforts to the test.

First acquisition complete

Once the acquisition of Bro-Midwest Inc. was completed, Marx found he was able to service more stops without increasing his labor costs in direct proportion to the added business. The acquisition was financed by the seller.

A key benefit of the acquisition was retaining the services of former owner Jim Broberg, who now acts as a parttime customer service rep for Marx.

Another benefit was the volume from the acquisition more than offset the 15 percent decline in same location sales that resulted from customer downsizing in the last 18 months. The acquisition, besides boosting sales, also diversified Marx's customer base. The acquired accounts included more school and more retail customers, both of which are more stable in recessionary times such as the present.

The human relations challenge

For all of the progress he has made over the past year, Marx believes that hiring quality people remains the biggest challenge. He has spent a lot of time fine tuning his training program and benefits package.

In a small company, management personnel must wear different hats. Marx often finds himself acting as route supervisor, warehouse manager and service supervisor. Office manager Rose Jester also does a variety of tasks outside the traditional scope of her job rifle. Jack Jensen, a 20-year industry veteran who joined the company last year from a vending machine moving business to become operations manager, often acts as route supervisor.

New procedures manual

This past year, he developed a procedural manual for route drivers that describes proper procedures for daily servicing of machines. This covers refund and comment cards, outdated and short-dated product, machine cleaning procedures, merchandising procedures, and truck-loading practices.

Marx also introduced a bonus and commission program for drivers that he claims has been very successful. Commission increases with years of service. Bonuses are based on machine inspections.

In comparing notes with operators from other parts of the country, Marx believes his market is particularly competitive when it comes to offering food machines.

Hence, he believes it is critical to have the technology in place to keep track of financial ratios.

By investing in state-of-the-art software with DEX/UCS capability, Marx believes a small company such as Royal Vending can maintain positive cash flow and continue to grow. His investments in handhelds, a computerized money room, and DEX/UCS will enable him to add more routes with limited capital outlays for labor. He has demonstrated that technology enables dedicated entrepreneurs to succeed in automatic merchandising.