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Education-Business Synergy Drives Solid Growth For Courtesy Vending

By EMILY J. JED

PORTLAND, OR — Holding a Ph.D. may not be a prerequisite to running a vending business, but there's no doubt it has given Courtesy Vending's Paresh Patel a competitive edge.

Patel had the unique advantage of earning his undergraduate, master's and doctoral degrees while building his vending business from the ground up, applying what he learned in practice every step of the way.

He was not inexperienced in management, even as a high school student. At the age of 12, he oversaw the remodeling of a small motel that his family owned. As a teenager, he created systems that are still in place today and managed the financial aspects of the family enterprise.

And so, in 1992, the teenaged Patel was looking for an enterprise to start that would generate enough revenue to put him through college. For that purpose, he purchased a cold beverage machine for \$200 and placed it in an automotive repair shop along the route he took to school. He was unaware that he was embarking on a journey that would lead to his becoming Portland's leading independent vending operator and the U.S. Small Business Administration's Oregon Small Business Person of the Year in 2005.

The high schooler steadily reinvested his profits and, by the time he entered college, had added several machines to his fledgling route.

"Everything I learned in school, I put to use in my business," he recalled. "If I took a class in marketing, operations, accounting and so on, my business provided a live model; I applied what I learned to vending. By the end of my undergraduate course of studies, I had policies, procedures and operations in place, just like a large organization — even though I was still flying solo. My company benefited because I was able to learn practically, hands-on. And my schoolwork benefited, too, because I could apply my business experience to my classwork."

Courtesy Vending's business was on a steady upswing when Patel completed his undergraduate degree and moved to Seattle, WA, in pursuit of his MBA from the University of Washington. Now with one employee at his



WHAT'S ON THE MENU? Paresh Patel devotes much time and attention to keeping the company's monthly menu cycle up to date. Working closely with the staff inventory and purchasing specialist, he involves brokers, drivers and his vendible product distributor in the task of choosing the best mix of items for each monthly menu.

home base in Portland, three hours away, Patel ran the operation remotely via cellphone, pager and fax.

In 1999, MBA in hand and ready to launch his career, Patel returned to Portland and considered a few job opportunities. After careful thought, he decided that with all the systems and processes he had developed, and with a loyal customer base as well, his vending operation

provided the best foundation for a promising profession.

GROWTH SPURT

Patel secured financing through the Small Business Administration, acquired several Portland vending businesses and aggressively pursued new accounts. From 1999 to 2001, Courtesy Vending grew 600%.

“It was just bang, bang, bang,” he recalled. “We won big accounts, we grew huge, and we expanded successively into four different facilities over those three years to keep up with it. Some companies we acquired had good equipment in bad accounts, others had bad equipment in good accounts. I swapped machines back and forth to maximize revenues.”

Determined to establish the highest level of control at the item level, the Courtesy Vending founder converted his entire operation to handheld route computers, using MEI’s Easitrax system. After a six-month trial and training period, the vending business “went live” with the system on January 1, 2002.

Over the course of three months, with the sales data he gathered through Easitrax, Patel revamped his approach to purchasing, category management, menu planning and inventory control.

“One immediately noticeable result was that our warehouse turns improved to 50 to 60 times per year,” the operator recalled. “Suppliers offer incentives to buy by the palletload, but with the data we have at hand, it’s generally not worth participating in those programs. It’s much better to manage the warehouse than to tie up cash. It’s not always a good deal to save 50¢ per case of something purchased in a large quantity, when you can buy smaller lots and sell one or two more of something else, so none of your stock is just sitting there. I think a lot of operators bend over to pick up dimes while they drop dollars out of their back pockets. It’s very important in this business to manage inventory,

turns and waste.”

Immediately after reworking his systems, Patel saw a marked improvement in overall sales. “I was able to better determine how drivers were merchandising their machines. They were skewed by their own tastes and they didn’t look at what was selling,” he said. “I think they all like the more quantitative, objective data on what their customers like that Easitrax provides.”

Courtesy Vending made its transition to the MEI Easitrax system just as the economy suffered a downturn and many of its competitors were struggling. “I’m certain that our timing of the program’s implementation, to reduce inventory and put sales data to use, was impeccable,” the operator recalled. “We were able to hold our own and grow, while others really took a hit.”

A firm believer in employing technology to full advantage, Patel’s next priority was to increase the level of security throughout his operation by installing Videx electronic locks systemwide. “We were the first in our area to use ‘intelligent’ locks on 100% of our machines,” he told VT. “It gives us peace of mind and a level of security and auditing that you can’t get any other way. I am the chief security officer, and it makes my job simple; security issues become black and white.”

Courtesy Vending’s keycodes expire daily, so the keys can’t be used after hours. Patel keeps close tabs on key usage through email alerts and detailed exception reports that warn him of unauthorized attempts by keyholders to open machines to which they do not have privileges,

and attempts to access machines on unauthorized days or at the wrong times. The company’s truck safes also are fitted with Videx locks.

The operator soon realized that by marrying the data from the MEI Easitrax and Videx databases, he could achieve an unprecedented level of control against internal theft. He approached the two system suppliers but, as they were unable to undertake this kind of task, he developed a proprietary software suite, “Active Management Systems,” in-house to accomplish his goal.

REMOTE CONTROL

“Every item put into a machine is logged and the meter reading is logged,” he pointed out. “There’s so much data that you can get bogged down. Did the vend ticket match on the day and time the machine was opened? Was there a shortage? Was the driver there two days early and, if so, was there a shortage when the machine was serviced again, on schedule?” Patel explained. “We tie the two systems together and manage on an exception basis; the Active Management Systems run in the background. When anything is off, the system automatically sends an email to the manager responsible for that area.” Thus, the warehouse manager is alerted when something has fallen to or below the reorder level. Patel himself receives an email if a security issue arises. “All our systems are scalable, so they can grow with us,” he added.

With 15 routes and 28 employees serving the greater Portland metropolitan area, Courtesy Vending’s president said that his business plan calls for far more market penetration.

A substantial business boost came in 2003 when Courtesy Vending became the exclusive vending provider for the City of Portland Public School District, serving 10 high schools and 20 middle schools. That contract, in turn, spurred requests for “health-focused” vendible products from business and industry sites.

A recent coup was a contract to serve Oregon Health & Science University, Oregon’s only health and research university and Portland’s largest employer. Courtesy Vending’s services will be enjoyed not only by the institution’s staff, but also by students, patients and visitors.

The City of Portland Public School District’s middle and high schools represent a distinct market segment, and Courtesy Vending has adapted to meet its needs and desires. “Portland is very health-conscious and, instead of resisting the movement – which had already gained momentum – and so lose business and respect, we partnered with the schools to develop a solution that would work for everyone involved,” Patel told VT.

Patel is the only vending operator to sit on the district’s wellness advisory committee. “It’s all parents and health advocates; I’m the only voice from the ‘other side,’ to let them know that we’re working with them, not against them, and to articulate valid arguments from an operator’s perspective.” NAMA’s Balanced for Life materials have been helpful in communicating the industry’s commitment to a healthier solution in schools, the operator added.

This school year was the first during which new state-mandated nutritional guidelines were in effect in Portland schools. “It seems innocent enough when you look at what’s acceptable, but it knocked out most of the snack



PERFECT FIT: Patel designed Courtesy Vending’s spacious 18,876-sq-ft. facility (top) from the ground up to include ample, secure truck parking space; a dedicated driver room (bottom left) that serves as a hub for drivers’ accountability and administrative tasks; and well-appointed conference room that conveys the company’s professionalism to clients and prospects.

products that we had in machines. Of the 40 items I carried, five made the cut," the operator recalled. "I had to source all new product. As a result, we're viewed as a wellness leader; we have 35 to 40 items considered 'healthy,' and more and more B&I accounts are looking for such choices."

While sales have declined to a certain extent in Courtesy Vending's school snack venders since the switchover to better-for-you products, it's still a profitable market segment. "We've had a major reduction in sales without the usual chips and chocolate, but it's still a good business for us," the operator told VT. "We went from awesome to not-so-awesome volume, but a school certainly is as good as a regular B&I account. We also raised our pricing to offset some of the loss."

After he picked up the school business in 2004, Patel had once again outgrown his facilities. He found it difficult to find a new building that was laid out to suitably meet his needs, so he designed his dream building from the ground up and settled in to what he hopes will be his final headquarters.

HOME SWEET HOME

"From the office space and the driver room, to three-high pallet racks and a fenced lot with plenty of parking room, by June 2005, the facility was complete – and it has met our every need," he told VT.

The company currently uses about two-thirds of the 18,876-sq.-ft. building and half of its available warehouse space. The structure occupies part of a two-acre lot, providing plenty of elbow room to accommodate anticipated expansion.

"Vending operators need a big, secure parking area, but many available buildings just share a common lot," he noted. "When you have hundreds of thousands of dollars' worth of trucks and products in them, it's important to secure



THREE UP: Courtesy Vending's three-high pallet racks for product and machine inventories makes efficient use of warehouse space.

them. One of the main reasons I built was so I could have a private lot in the back, where the trucks aren't visible, and they're secure."

Security was of paramount concern throughout the design process, and Patel left no stone unturned when putting controls in place. In addition to installing digital video surveillance and night-vision cameras, he incorporated Videx's technology – which had proven its value in the field – throughout his headquarters.

"All doors have electronic locks. One key works for all locks, but only two keys open the cash room and the parts room, and I can turn access on and off," Patel noted. "Even the forklift is activated by a Videx switchlock, for safety. I can dictate the times it can be used, and our policy is that it can only be used by two people: one to drive and one to spot. It needs both keys to operate, so it enforces the safety policy."

Patel also put his technological savvy to use by developing a Web-based scrolling message board, an LCD panel in the warehouse that enables him to remotely transmit up-to-the-minute instructions and information to drivers.

Custom-designed to provide the most efficient workflow within an attractive working space, the headquarters has become a sales tool for Courtesy Vending. With that use in mind, Patel included a modern, well-appointed conference room in the facility design.

"We run a very clean, efficient and organized operation," he told VT. "It can be very difficult to convey that during a sales meeting at a customer's site. Too often, it's hard for a client to differentiate among vendors, because anyone can say anything. It's how they perform, how they service their accounts, that makes the difference.

"We encourage any customer to arrange a site visit, to see first-hand how we differ from our competitors," Patel explained. "Our facility and our operations give customers first-hand knowledge; what they see is indicative of the level of service we provide. We do things differently, and there is no better way to see that than to visit our facility."

An example of things done differently is Courtesy Vending's machine menu planning approach. "We put a lot of time into ensuring the menu is designed to improve sales and reflect customer preferences," the Oregon operator told VT. "This is one of our competitive advantages."

While the industry has been warned for years that the machine load plan is too important to be left entirely to the driver's discretion, Patel said, there can be a complementary danger in assigning the menuing task to someone in the warehouse. Since they do not see what actually happens at the machine, warehouse people judge products only by their flow out of the warehouse.

Accordingly, Courtesy Vending uses a cyclical menu system under which a new menu is adopted each month. To start the cycle, the company's inventory and purchasing specialist runs reports to determine the relative popularity of the items presently offered for sale. The report function identifies the number of machines that carry an item, as well as that item's volume, so at the end of the process, the specialist has a list of all the items sorted in order of turn velocity.

"She and I then meet with our brokers to see



BUSINESS LEADER: Patel won the U.S. Small Business Administration's Oregon Small Business Person of the Year award in 2005 for his "sensible and methodic approach," which positioned Courtesy Vending as Portland's leading independent vending operation.

what's on sale and what the specials are," Patel continued. "Based on the reports and those meetings, she drafts a new menu. She sends it to my assistant who reviews it and sends it back for revision." Patel himself then studies and amends the revised draft.

"Then we have a company meeting," he explained. The twice-revised menu is presented to all the drivers, who are asked for their feedback – what their customers are asking for, and their comments on the proposed new menu. This process results in a new draft.

"We send that to our product distributor, in advance, to make sure they can procure the items we need," Patel told VT. "We don't want any product outages or supply problems." If the distributor reports that an item is unavailable or in short supply, the menu is revised again.

"The new menu is issued a few days before the start of the next month, usually around the 26th," he reported. "And then the cycle starts again. We do this each and every month. The final menu has been through virtually every part of our organization before it's issued; it's that important to us."

In practice, the framework within which the monthly revisions and updates are made is a menu plan with some of the characteristics of a planogram. Drivers take the field with a core of best-selling items and a variety of "flex" selections over which they have some control. "We stock, on average, 65 items for each menu," Patel reported. "Since the typical snack machine holds 40 to 45 items, the drivers have some flexibility, but not a whole lot."

A focal point of the headquarters is the drivers' room, in which the route service team begins and concludes its daily activity. The day begins with a stop there, to read the wall-mounted LCD panel for bulletins, check individual mailboxes, pick up the handheld route



TURN, TURN, TURN: Courtesy Vending inventory and purchasing specialist Angela Hobbs uses data gathered by the MEI Easitrax system to ensure that the warehouse is stocked with the fastest sellers. This attention to sales produces a swift 60 warehouse turns per year.



TIGHT SHIP: Overseeing Courtesy Vending warehouse operations is Jordan Huddleston. Patel controls internal access to inventory and cash throughout Courtesy's headquarters by using Videx electronic locks and employs the technology in the field on all of his vending machines.

computers from their docks and use them to check out. The driver also can review any pending service calls for stops on the particular route, so they will know what's going on in a location before walking in. It's also easy to review fill, sales and waste performance for the route. Finally, the driver picks up the truck and the route keys from the key safe, and "renews" the route key at a Videx terminal by entering a secret individual PIN. Unless the daily authorization is loaded down to the key, it will not work.

Upon completing the route and returning at the end of the day, drivers return to the room to dock and synchronize their handheld computers, pick up their route order and check-in sheets from the adjacent printer, check off the collection bags which they were responsible for bringing back, then drop those bags into a con-

venient chute, fill out change-purchase forms that keep control over changer funds, and then head for the warehouse to load their route orders for the next day. The last step is to turn in the route order forms.

A tool that Courtesy Vending has found invaluable is a custom software application that Patel developed for maintaining his fleet. "As a vending operator, your vehicles really are your most important assets," he noted. "I learned that the hard way. But now I have an in-house truck mechanic, so I'm not at anyone's mercy, and I have my own fleet application that tracks the service life of the critical components like the starter and the alternator, schedules tuneups and flags the need for periodic brake checkups. The goal is to keep the fleet up and running through preventive maintenance, so there are fewer unexpected prob-

lems. For example, we've learned to fix the brakes before metal-to-metal screeching alerts us to the problem!"

KEEPING FOCUS

Drawing on his academic knowledge and life experience, Patel has always paid careful attention to defining the parameters of his business to ensure profitability, while at the same time bringing his customers the products and services they desire.

"We've offered fresh food all along because our customers wanted it, but we made the strategic decision from the beginning to partner with a company that specializes in food," he instanced. "We are in the business of filling and running vending machines. We don't make Snickers or Doritos, and we don't make sandwiches either. I want a specialist who makes food, who gets better prices, and who deals with USDA inspectors, so I don't have to."

He added that many operators figure only the "raw" cost of running their own commissaries, without taking into account the overhead associated with the space it occupies, the waste and the added management expense. "It's a very high fixed cost and when business goes down, ironically, your cost per piece goes up," he pointed out. "By using an outside vendor for food, we provide a better product and the costs don't vary inversely with the volume."

Likewise, OCS did not fit into Patel's business model, until recently. Thus far, focused on its core vending operation, Courtesy Vending referred customer requests for office coffee services to a local refreshment services provider.

But, with the careful calculation that determines the viability of every strategic move he makes, Patel recently decided that the time is right to launch the Courtesy Refreshment division. This unit is aggressively targeting new and existing customers for office coffee and pure water services.

"I am approaching OCS with the same principles that led to our vending success. We're going to do OCS a little differently," he told VT. "If everyone does it the same way, there is no reason for anyone to switch providers; but we'll have a competitive advantage through technology," Patel disclosed. "Without giving too much away, we'll use handhelds and other technology to provide incremental service that may give people a reason to choose us. I didn't want to just wander into OCS without having a model that works to my company's advantage and communicates to our customers that we are on the cutting edge."

TOOLS OF THE TRADE

Looking toward future developments in the vending business, Patel observed that a number of promising technologies are making their way into the industry, and may well prove valuable if correctly applied. Cashless payment systems, for example, hold great promise. "I believe cashless options will fit in with full-line vending," he said. "As our price-points cross the \$1 mark and start approaching \$2, cashless will become ever more important."

Remote machine monitoring is more problematic, he said. The ability to learn the functional status of a machine on location from a central station at any time certainly can be helpful. "It could alert us to service

call problems, if there is a bill or coin jam, or if the temperature in a food machine starts to increase," Patel instanced. "However, much of the remote monitoring technology out there is not focused on this, although it may be included as a side benefit.

"The value to the operator is knowing when a machine is down," he emphasized. "When a machine is down, it is costing us lost sales and it provokes a customer service issue. If I could get an e-mail telling me that this machine has a bill jam, I could have a tech there within the hour, and have it fixed even before the customer contact knows about it. That's where remote monitoring would add value."

At present, much of the industry discussion about telemetry centers on its use in adjusting service frequency to machine inventory depletion, a concept summarized as "flex routing." In Patel's view, this approach sounds good, but it is not as straightforward as many observers seem to think.

"Routes are already scheduled to maximize efficiency," he pointed out. "If flex route scheduling were introduced, it would work if the routes were 'tight' enough – the stops close enough together – that you would not be introducing new inefficiencies if you did them on a flex basis."

Viewed another way, he continued, "Flex route scheduling obviously will work better for accounts that have a greater variance – a larger standard deviation – of sales from one service to the next. If sales are roughly within a small variance from the mean at each service, then there is no need for flex routing." At present, he said, the vast majority of Courtesy Vending's ac-

counts do not exhibit the degree of variance at which flex scheduling would be useful.

The technology enthusiast added that, in his experience, a paradox often arises when something new comes down the pipe: introducing a system designed to streamline operations can work against that goal by making matters more complicated.

"It's a balancing act," he said. "At what point do you adopt new systems to create efficiencies without having the complexities outweigh the efficiencies you are trying to create?"

Patel regards the principal challenge in vending technology today as software, not hardware. "The developers focus on gathering data: 'CyberKeys' log data, handheld computers log data, DEX controller boards log data," he suggested. What is needed is sharper focus on using the data thus collected, and this is a very complex task.

"We have to deal with, literally, a sea of data," the northwestern vendor observed. "Managing and using that data is very complex; it takes specialized skills."

This difficulty underlies Patel's decision to develop his own software when he can't obtain it elsewhere.

The proprietary "Active Management Systems" is an example. The company wants to use data effectively to improve security and accountability, to increase sales while decreasing costs and to improve customer service. The challenge is to make connections between systems designed for dissimilar tasks, since information obtained from each can be compared and analyzed to obtain results that neither pack-



STRATEGIC MOVE: As Patel launches his company's Courtesy Refreshment division with a unique technology-based approach, office coffee specialist Carlos Barbosa is poised to aggressively seek out new and existing customers for OCS and pure water.

age can provide by itself.

"We have taken the challenge head on," he emphasized. "We know that data will provide much value to us in improving our operations and security. I made the strategic decision to develop software that allows us to do what we need to have done."