



MDM Special Report:
The Industrial Vending Boom



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MODERN DISTRIBUTION MANAGEMENT

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Vending: 'A Runway for Growth'

Distributors drive strong adoption of industrial vending

Distributors are helping to drive increased adoption of industrial vending in recent years. The Fastenal Company, Winona, MN, is largely credited with sparking the growth, but many of the largest distributors – and several smaller ones – have introduced their own vending solutions for customers. This article looks at the current state of industrial vending, drivers of growth and where industry experts and distributors expect vending to go. This article includes an estimated size of the vending market by number of machines.

By Lindsay Konzak

Some of the oldest vending solutions and software suppliers – such as Autocrib and Cribmaster – were founded in the early 1990s. But interest from distributors in incorporating vending into their service offerings has resulted in a steep increase in end-user adoption in the past couple of years.

Distributors are now driving record growth of industrial vending, a term broadly used to describe a point-of-use system that end-users can use to control the use of materials in their facilities. Safety products and indirect materials are most commonly stocked in the machines, which range from the traditional helix/coil machines to locker systems and carousel machines.

The systems are tied to software so that the distributor and end-user can track usage and better manage inventory replenishment. Vending also helps embed a distributor in a customer's facility, making it harder for that customer to walk away if the distributor performs well. Customers benefit because it can help them streamline operations and cut back on costs associated with inventory shrinkage.

Winona, MN-based industrial distributor Fastenal is broadly attributed with sparking the current boom in industrial vending. But other large distributors, including Grainger, MSC Industrial Supply, Motion Industries and others are also increasingly building vending into their inventory management offerings.

This makes it even more critical for distributors to evaluate where vending fits in their portfolios – or whether it fits at all.

Distributors of all sizes are responding, pushing the technology further into the market. Customers' desire to cut costs during and after

the recession may have helped pave the way for broader acceptance of the technology by end-users.

Vending Market Snapshot

Fastenal's footprint accounts for at least a quarter of installed machines, if industry estimates are correct. The company had 29,549 machines installed as of the end of the first half of 2013, a higher number than any other distributor or vendor. That's a more than 10-fold increase for Fastenal from the first quarter 2011 when, according to company reports, the distributor had 2,659 installed.

Despite recently backing off its goal of 30,000 new machine installations in 2013, Fastenal still signed 20 percent more in the first half of 2013 than it did in 2012.

Fastenal is the outlier in the market, with a much faster growth rate and much larger installed base than its competition. A report from Wunderlich Securities, "Industrial Vending: The Key Investment Theme for Fastenal & MSC", estimates between 50,000 and 100,000 industrial vending machines are in place today. One of the authors of that report, Brent Rakers, says that the size of the market is hard to determine, and the broad range reflects that. The estimate includes all machines, not just those placed by distributors.

Autocrib founder and CEO Steve Pixley estimates that there are close to 100,000 machines in use worldwide. "That's a lot of machines, but that's also over 20 years, so the interesting thing is how fast it's growing now," he says.

Even tougher is determining the potential for the market, which the Wunderlich report estimated at up to 750,000 machines based on a number of factors, including the number of manufacturing establishments in the U.S. and the average number of vending machines used by different sized manufacturing plants. Wunderlich's researchers also examined other potential markets where vending might be a good fit, such as repair shops.

But, Rakers says, "at this stage in the process, that's a very hard number to come up with."

Regardless of the actual number, Rakers says, researchers found "there is a substantial runway of opportunity ahead" for distributors

in industrial vending.

"We are still in the infancy of what industrial vending could do," Pixley says. Pixley's company used to produce just one machine a day. Now it produces eight per shift.

"I think everybody has realized that if you're going to play in the space that they have to have that, because the Fastenals and the Graingers and all the major national players are offering it," says Brian Norris, vice president for inventory management at Grainger.

Norris says that while demand for vending is up, the customer is actually seeking the benefits of vending, which could come in the form of other inventory management services. "All the data and research that we have done, the customer cares most about having the right product when and where they need it," he says, "and there are some products that they want to understand who is using what so they can reduce it or they can limit the amount of products that they're taking."

The Impact of Fastenal's Push

Distributors and vending solution and software suppliers say the impact of Fastenal's aggressive push in vending on the market has been both positive and negative.

"I think it made everyone take a look at what kind of inventory management solutions they are offering – and if they don't have a solution, they need to invest in a program or shore up relationships with key customers," says Vince Laney, a strategic account specialist with Cribmaster.

Fastenal has brought awareness to potential customers about the benefits of vending, according to many. "I think they have done a wonderful thing, bringing the importance of vending to the marketplace," says Billy Tedford, vice president of sales for 1 Source Supplies, which builds and sells vending machines and software.

"The more our competition is out there engaging our customers, the more players that are in this arena, it actually provides opportunity to engage our customers in more meaningful discussions," says Ken McDowell, vice president for supply chain management at gases and welding hardgoods distributor Airgas, Radnor, PA. "We welcome the increased discussion."

But Fastenal's potentially negative impact, according to some distributors and industry experts, has been its approach to the market. Fastenal gives its machines to customers for free in many cases, and in exchange, customers

sign a contract. This may include committing to a number of years or a minimum amount of business.

Some say this has changed customer expectations and flipped the model on its head; historically, end-users bought machines. Some still do, especially larger customers who want more flexibility in who supplies the products for those machines.

But while some distributors do pass that cost on to customers, more are increasingly following the trend of giving away the machines – which can cost anywhere from \$5,000 to \$40,000 apiece.

"It's highly capital-intensive for us," says Grainger's Norris. "It's a cost that we incur that we give to customers. That's the way the whole market is right now."

"It's kind of a double-edged sword really," says Cari Palmer, the chief relationship officer for SupplyPro, a vending solutions and software supplier. "It's great as long as everyone understands, in my opinion, what the conditions are and the expectations." But when customers are hit with unexpected restocking fees or surcharges, she says, or products are swapped without the customer's knowledge, it can cause conflict. She advises distributors to have as much transparency as possible with their customers over the terms of the vending agreement.

Pixley says the trend of free machines may pose a challenge to smaller distributors that want to enter or compete in the market. "There's really no way that a small- to medium-sized independent is going to be able to compete with (larger distributors) based on their gross margin differences; they can afford to give away vending machines and do things that the small- to medium-sized distributor just doesn't have the margin with which to compete," Pixley says.

Tedford says smaller distributors often say they are reluctant to enter the vending market because of this cost. "Many of them say we aren't in the business of giving away machines," he says.

That's where 1 Source Supplies and other lower-cost providers fit into the market. 1 Source Supplies' goal is to offer a simpler vending option targeted to distributors' small customers to make it cost-effective to serve that customer need.

Safety and industrial supplies distributor Mallory Safety & Supply, Longview, WA, has created SnapVend, a partnership with Vendnovation, a vending technology company. The

SnapVend machines and lockers Mallory helped develop are a low-cost alternative for distributors, according to President Tim Loy, and they are already being used with Mallory's customers and those of a few other distributors.

The Competitive Landscape

Distributors of all sizes are jumping into the vending market, from one-branch distributors and specialists to the nationals. Distributors are going after vending as a defensive move due to customer requests, or they are entering the space proactively with their own customized solutions.

Most of the largest distributors offer some sort of vending program, many as part of a broader suite of inventory management services. Grainger's KeepStock inventory management services are a key growth driver for the distributor.

Grainger's installed base is more than 3,200 machines, according to Norris. Sales through the machines are still low for the distributor, who said that sales through its inventory management programs are about 8 percent of its total sales. Grainger's KeepStock program includes 42,000 vendor managed inventory installations, only a small percentage of which is vending. In 2013, Grainger will have deployed 2,500 new machines, Norris says.

Airgas has offered vending since 1999 as part of its supply chain management programs. About 40 percent of the products Airgas sells can be run through vending, including welding hardgoods, safety supplies and other non-gas items. The distributor's installed base is in the hundreds – much less than the competition. But for Airgas, McDowell says, vending is a tool in its suite of supply chain services, which thousands of customers use.

While most of the largest industrial distributors offer some form of vending, they aren't all competing with each other on every account. Rakers says that in his research for the Wunderlich Securities report, he found that there's not much direct competition between Fastenal and MSC, for example. Fastenal is focused on indirect materials and safety supplies, and MSC's historic focus on metalworking means its vending programs center more on tools and higher-cost items. "It's a different approach," Rakers says.

Cutting tools manufacturer Kennametal's ToolBOSS solution is also focused on this market; it is an electronically locked tool storage

cabinet controlling access to higher-value items like carbide inserts, drills and taps.

In addition to taking advantage of some of the lower-cost options, smaller distributors are competing in the market with a mix of offerings. "Where they're competing and winning is really as the value-add solution provider," SupplyPro's Palmer says, "having open conversations with customers and even partnering with other providers to provide a whole solution. So we're seeing the safety provider teaming up with the cutting tool provider to collectively provide a solution." Palmer says that's a new approach and has a lot of potential in the market.

The Technology

Industrial vending machines are not the same kind you'd buy a candy bar or soda from (though even food and beverage vending has grown to be much more sophisticated in recent years).

There are a select few vendors of the technology and inventory management software focused on the industrial market, including Cribmaster, Autocrib, SupplyPro and others. The largest vending suppliers have a broader selection of technology to choose from, including traditional helix/coil machines to more sophisticated offerings that include RFID and weight-based machines.

As of the second quarter 2013, 52 percent of Fastenal's installed machines were the traditional helix vending machine, which Fastenal calls its FAST 5000. That compares with nearly 80 percent of machines in the first quarter 2011, according to company reports.

Pixley thinks the future of vending machines is based on hybrid systems using multiple technologies. "So combining RFID and load cell, or combining carousel and vision; those types of things are going to become the next wave of vending machines, which will become more expensive, but much more capable. They'll be able to do a lot more."

He also believes that vending will be increasingly more about tracking usage – and not just numbers, but collecting data to help end-users comply with regulations.

Cribmaster, which was acquired by tool manufacturer Stanley Black & Decker in 2011 and was previously known as Winware, also offers a breadth of product that goes beyond the traditional coil machines that allows the end-user to "get what they need in the least amount of space possible," says Susan Hebrank, Cribmas-

ter's marketing services coordinator.

For example, if a customer wants a handful of fasteners, one technology uses precise weight-sensing scales to calculate what was taken. The technology still allows the customer to track what is being used and by whom, but cuts down on the time for the user in getting the tools he needs. Hebrank says the distributor can just refill the bins, and the machine will know what product and in what quantity was added based on the weight.

"In the beginning, vending was just about managing inventory," says Peter Bingaman, MSC vice president of marketing and communications. "Now it is becoming more about the software layer and what it can provide in the way of information and integration with other systems in our customers' networks."

And Bill Welch, director of vending solutions for MSC Industrial Supply, Melville, NY, says the distributor expects to continue to see more advancement on the technology and software side, incorporating more mobile and cloud-based technology. This will allow for better data management and communication between the customer and distributor, he says.

The Future

Oberton says Fastenal remains optimistic about the vending market, but because vending is a longer-cycle sale, it takes longer to reap a return on the business. So the distributor has "let up a little bit" to encourage more immediate sales.

"They are not less optimistic about vending," Wunderlich's Rakers says. "They are still extremely positive about vending. They were pushing so hard they almost set the bar too high for themselves. What they've done now is reset the expectations."

It will continue to be tough for some small and mid-sized distributors to compete, though some are doing so successfully with lower-

cost options or by only applying vending to a strategic set of customers. The largest companies – Fastenal, Grainger, MSC and more – have economies of scale and the capital to invest in a deeper vending solution.

Pixley believes that some of the largest distributors may even acquire a vending machine supplier or build out their own internal capabilities in the future.

Even if they don't do that, they do have the power to affect prices on vending equipment and technology because of the sheer number of machines they will buy. This will lower their overall cost of offering this service to customers and further challenge smaller distributors without that buying power.

There may be some fallout in a few years from distributors who have pushed vending more as a marketing tool to nab market share than as a supply chain management tool. Because of the rapid growth in the industrial vending market, some distributors entered vending as a defensive move and could fail to take advantage of vending as an opportunity to add insight and tighten customer relationships.

Airgas' McDowell says some customers are skeptical as their expectations for vending have not been met in the past.

"I think that if more companies adopted the proper approach to utilizing vending as a supply chain management tool, then the growth will continue as customers embrace supply chain management programs," he says. "If distributors continue to just flood the market with one-size-fits-all types of machines, a lot of customers are just going to say 'been there, done that, tried that' and it might take them awhile to adopt a good supply chain management program with the right type of vending machine."

"... There's certainly growth ahead, but we as an industry need to make sure we're doing the right thing by our customers."

Industrial Vending's Growing Pains

Distributors' trial-and-error approach to making vending profitable

Distributors are now driving record growth in industrial vending adoption among end-users. Even though vending has been around for a couple of decades in the industrial space, many say it still has a huge runway for growth. But as with any trend in its "infancy," distributors looking to expand their vending services are faced with challenges, from initial investment to profitability to getting up-to-speed quickly on all available options to effectively respond to customer demands. This article examines key challenges identified by distributors and provides best practices for addressing them.

By Jenel Stelton-Holtmeier

Over the past few years, adoption of vending in industrial markets has grown rapidly. And while the adoption has been driven primarily by the large national distributors, small and mid-sized distributors have also seen demand from customers to provide vending and inventory services to their customers.

And many are responding.

But with the recent explosion in vending, the industry has felt some growing pains. These include finding the right mix and approach for profitability; aligning distributor capabilities with customer expectations; covering the up-front cost of the machines; and switching from a defensive to offensive strategy to compete effectively in an increasingly busy market.

Taking an Offensive Stance

A report on vending from Wunderlich Securities estimates that vending machines typically cost between \$5,000 and \$20,000 per unit, depending on the technology included in the machine. The cost could be even higher for some of the more sophisticated systems.

After the machine is installed, there's also the cost of maintaining the vending machine and making sure it is appropriately stocked.

Those are costs that most distributors who offer vending have to carry.

"It's a cost we incur that we give to our customers," says Brian Norris, vice president of inventory management for Grainger. "That's the way the whole market is right now."

In the past, many smaller distributors may have viewed carrying that cost as prohibitive and opted to stay out of the market. "But what

happened when Fastenal and MSC and Grainger and the bigger guys just came in and started carpet-bombing with vending machines, they were forced to then make a defensive move," says Steven Pixley, founder and CEO of Autocrib, a vending solutions and software supplier. But staying in the defensive position may stifle growth opportunities.

"Most customers don't want to pay for a vending solution, and the bulk of the market is probably in the give-to-get model," says Tim Loy, president of Mallory Safety and Supply in Longview, WA, who has developed a lower-cost vending solution with vending technology company Vendnovation. "Our challenge continues to be helping independent distributors really move from a defensive posture to a more offensive posture."

It's not just the smaller distributors who are facing this reality. Industrial distributor Motion Industries, with \$4.5 billion in total sales last year, created a new business group earlier this year to focus on building out the company's vending initiative. The new focus was driven primarily by customer demand, says Doug Osborne, vice president of Motion Services.

"Our customers are asking us about our vending capabilities more and more often," he says. "So it is important to us to be able to present to our customers our capabilities and how we can provide a solution that offers the best application of inventory management technologies for the greatest value and benefit, based on the customer's specific needs and operating environment."

Switching to a more offensive position requires a more strategic focus on vending as part of your overall offerings, Pixley says. "If you're just trying to defend your top three accounts (by introducing vending), in the long run you're going to lose because your heart's not in it," he says. The companies that are actively investing in vending are the ones who will win.

Profitability & Product Mix

For most distributors, the cost of the machines themselves can be justified if they get a large enough return on investment. But one of the most significant challenges distributors have identified is how to make vending a profitable venture.

During an investor call to discuss the company's first quarter 2013 results, Fastenal CFO Daniel Florness said the company was taking a closer look at underperforming machines. Fastenal is largely credited for sparking the latest vending boom; the industrial distributor has nearly 30,000 machines in place with customers. The distributor recently pulled back on its aggressive sales approach due to some challenges with profitability and feedback from its sales force.

"Our challenge is we're not giving a service to our customer with that \$500 or \$600 a month machine. And we sure as heck aren't giving a return to our sales on the deployment of that machine," Florness said at the time.

Because of the fixed costs associated with the average vending machine, Brent Rakers, co-author of the report from Wunderlich Securities, estimates those costs are better absorbed at closer to \$2,000 a month per machine in revenue. The return a distributor gets on each machine can be connected to targeting the right customers from the outset and enforcing the conditions that come with free machines. Distributors must account for the operating costs, he says.

Deciding whether to offer vending to a potential customer can be difficult, says Cari Palmer, the chief relationship officer for Supply-Pro, a vending solutions and software supplier. After all, customers are asking for something that will lower their consumption – which theoretically translates to lower overall sales. "The hard reality is they can either embrace it, charge forward and be that provider of it and still have some of the pie, or they can lose all the pie to the supplier standing behind them with none of that business that's knocking on that same customer door," she says.

"Profitability for vending is just like any other offering. It can be a challenge if you don't have the right programs and offerings in place," says Ken McDowell, vice president for supply chain management at gases and welding hard-goods distributor Airgas, Radnor, PA. "Each provider has to be continuously looking at refining their offering in order to maintain profitability while providing true value for the customer."

Finding the right product mix to run through vending machines is essential to having a successful vending program. "One of the biggest challenges we see is that customers sometimes want to vend more than they probably should," says Bill Welch, director of vending solutions for MSC Industrial Supply, Melville,

NY. "Vending is not the answer for all your inventory management needs. Our company, for example, offers vendor managed inventory and customer managed inventory services to address the broad needs of the customer environment. It's not one-size-fits-all but really about optimizing the solution you deploy based on your needs."

Motion's Osborne agrees. "Typically when we start the process, we are fine with a long list of various types of products and equipment that they want to manage because we have other solutions and offerings that may be a good solution for the other goals that they are trying to achieve," he says. "We'll take that long list of products, identify and refine the right solution, see where vending fits in, and if appropriate, explore other options for a more effective solution."

It's a great tool for controlling high-volume or high-cost items, but some customers are looking to control items that may be better served through another solution. "We work with our customers to share best practices that keep productivity and cost savings in mind," says Peter Bingaman, MSC's vice president of marketing and communications.

Profitability should not be the only consideration, though. For Airgas, the focus is on providing overall reduction in supply chain costs. "That's the whole goal. The goal is not to install vending; the goal is to provide value to the customer," McDowell says. "... As long as we provide that value, our customers have been willing to pay us because it's an investment in their business."

There are five areas of "low-hanging fruit" that distributors should focus on, Palmer says. First are the high-use items. "What are the things that I'm leaving work and going to the crib 50 times every week?"

Second are high-dollar-value items you want to have more control over to reduce costly consumption.

Mission-critical items make up the third category, according to Palmer. "I don't care if it costs a nickel, what happens when you don't have that product?" she asks. "Does production shut down? Or what kind of overnight fees and expedite fees and labor fees surround that item?"

Vending machines are also very effective for managing tools, including those that must be calibrated or their usage tracked for regulatory or safety reasons, through a check-in and check-

out process.

A final category identified by Palmer is “anything that has take-home appeal.”

Relationships

Distributors may not be able to satisfy all of those areas, particularly if they’re focused on only including their own products in the machines. “The enlightened provider is going to say ‘Absolutely!’” when asked if products it doesn’t sell, including maintenance or safety equipment, can also be included in the machine, Palmer says. “... By doing that, they’re building goodwill; they’re becoming a solution provider instead of a commodity provider.”

Relationships play a big role in distribution and the perception of the impact vending has on those relationships varies widely. Some distributors, such as O.E. Meyer in Sandusky, OH, see vending machines as a potential barrier to building the relationship.

“We prefer more face-to-face contact,” says Craig Wood, president of O.E. Meyer’s industrial group. “With a vending machine, you treat it like a candy bar or pop machine. You don’t build a relationship with that; you just keep delivering product.”

“The problem with vending machines is that they’re focused on dispensing what the customer wants today. Having them doesn’t encourage people to think about how to do things differently,” says Chester Collier, senior vice president, global distribution, for manufacturer Walter Surface Technologies in Montreal. And in a rapidly changing market, successful distributors need to continually be thinking about how to help customers improve.

On the other hand, many distributors see vending as a way to strengthen the relationship and integrate into the day-to-day operations of a customer.

When distributors view vending as part of a total customer relationship ecosystem, they are more likely to reap the benefits they are looking for, some say.

“If profitability was our only focus, we’d probably make some poor decisions,” MSC’s Bingaman says. “Instead, the focus is on partnering with our customers to create shared value.”

“It provides increased value recognition,” Welch says. “With these programs we can change the conversation from product cost to total cost to better demonstrate our value.”

Initial results from a research study conduct-

ed by John F. Kros of East Carolina University’s College of Business and Scott Nadler of the University of Central Arkansas’ College of Business found that more than 90 percent of end-users said vending solutions became economically beneficial to them within two years or less.

“It may cost you more money to buy the equipment, but it will save your customer money, and long term that translates into solid business,” says Cal Bauer, vice president of marketing for Vendnovation.

But many distributors and industry experts say that to provide customers value, distributors can’t have stock-outs. “You have to do it perfectly,” Nadler says. “... If you do a good job, the customers know it. If you’re doing a bad job, they’re going to know it. There’s no hiding these errors.”

Vending works best when the right products are in the machines, says consultant Jon Schreibfeder of Effective Inventory Management Inc. If a distributor performs well, keeping machines stocked with what customers need, customers won’t walk away, he says. Schreibfeder says that he has several large manufacturer clients who “won’t even entertain new quotes” as long as their suppliers are effectively providing them with the inventory they need.

But the cost of bad performance is high, he says. “You have to be nearly perfect from day one. There cannot be any glitches. You have to be sure it’s a seamless operation. If you do that, you can gain the profitability you need.”

Aligning Expectations

Customer expectations can sometimes exceed the capabilities of the machines and the software, and if a customer comes in with expectations that are too high, it can damage the relationship, Nadler says.

“There’s a certain element of trying to have something that is one-size-fits-all,” says Jeff Pomerantz of Tofino Software. “But at the end of the day, if you can say to the customer, ‘What kind of reporting do you want to see?’ and work within the limitations of the software you have, you’re going to have a better end result.”

Customers are starting to recognize that the machines won’t solve all of their inventory management problems, says Steve Drummond, general manager of industrial distributor Source Atlantic, Saint John, New Brunswick. “It’s a temporary piece to a bigger need,” he says. The real need is gaining a better understanding of inventory requirements and streamlining the

inventory throughout their operations.

Distributors have to educate customers on what vending machines can do – and identify where other programs may be the better solution for reaching a customer’s goals.

“I had an engineering professor once tell me you don’t use a sledgehammer to kill a fly. It’s a good tool, but it’s not always the right tool. It’s the same for vending,” Airgas’ McDowell says. “...Today we’re talking about how we educate our customers on how vending will only be a beneficial tool if it’s part of a supply chain management program.”

Grainger’s Norris agrees: “Effectively managing inventory means aligning the appropriate solution; vending is just one part of that.”

But education goes both ways. Distributors also need to make sure they’re fully aware of the capabilities and limitations of the machines. Customers can help improve their experiences with vending, according to Motion’s Osborne, by making sure they communicate with the distributor about changes that might be coming and by providing feedback on how things are set up.

Communication and training are critical to successful relationships. If you understand the processes, you can build something that solves problems for your customers, says Susan Hebrank, marketing services coordinator for vending machine and software supplier Cribmaster.

Nadler says salespeople play a big role in starting customers off on the right foot. “Make sure everyone is on the same wavelength,” he says. “Make sure sales reps are properly trained so that the customer comes in with the right expectations.”

In the end, most in the industry say that if distributors aren’t taking advantage of the benefits of vending solutions, including the machines and the software that provides the real value, they should look at where they can fit it into their offerings.

“If you’re not used to using technology, the advice is get used to using it because your competitors are using it against you,” Vendnovation’s Bauer says. “Get educated, get up-to-date and recognize that using the technology can save your customer money.”

■ MDM Interview

Fastenal’s Vending Evolution

Fastenal CEO on building the industry’s largest vending program

Fastenal is largely credited with driving the latest boom in industrial vending services among distributors. Fastenal had nearly 30,000 vending machines installed as of the end of the second quarter 2013, and while it recently backed off on its goal of 30,000 new vending machines this year, it continues to expand its program, called FAST Solutions, at a quick clip. Fastenal’s vending program has grown much faster than the competition’s.

Staff Writer Angela Poulson spoke with Fastenal CEO Will Oberton about Fastenal’s vending program, where it stands now and where it’s headed.

MDM: Where did the idea of pursuing an industrial vending solution for your customers originally come from?

Will Oberton: It originally, I believe, came from our customers who wanted it, and so we started buying machines from some of the other compa-

nies that were doing it – such as Cribmaster and SupplyPro – and I suppose we bought a hundred or so machines.

At some point we decided that we had to develop a deeper, more direct relationship with a vending manufacturer, and that’s when we started becoming big in it.

MDM: Are there lessons learned you wish you had known when you launched FAST Solutions?

Oberton: There are a lot of lessons we’ve learned. Most of them I won’t share for competitive reasons, but getting the product in vendible packages has been a huge undertaking for us.

Also, at some level, I’m surprised at customers that have no interest in the program because it’s purely a better way to distribute products. I shouldn’t be surprised by that, because many people in general are averse to change. Change is difficult, and this is a pretty big change.

MDM: You said back in 2011 (in Fastenal's 2010 annual report) that Fastenal's FAST Solutions program really took off in 2010. What do you think helped the program get off the ground?

Oberton: The biggest thing is we developed a direct relationship with the producer of the software and the manufacturer of the machines, and based on working with them, it put us in a more competitive position. In the past, the machines that we were buying were so expensive that the solution only worked with very large companies.

What we discovered by going direct to the manufacturers is that we could actually develop a solution for small to medium-sized customers, as well. So the scope of the opportunity became much, much larger because we were in a better cost position.

MDM: You recently announced you probably won't reach your 30,000 new machines goal in 2013. Why?

Oberton: There are two main reasons. One is that the economy is slower than we had anticipated it would be. The other is we've quit pushing quite so hard on it. It's not that we don't want to make it happen and that we're less optimistic, because we're not. But we know that vending is a longer-cycle sale.

If I go out and make calls on a construction site today, I very likely could get orders today or tomorrow or the next day. If I go out and spend my day signing a vending machine, the chances of getting any return out of that machine in the next five or six months are very slim. We had put a tremendous amount of effort in that, but it's a long-cycle sale, so we backed off the pressure, and said: "Hey, just go create growth, and if it happens to be vending, great, and if it happens to be you're just selling threaded rod at a job site, that's great."

So we didn't de-emphasize it, but let up a little bit in an effort to get more immediate sales.

MDM: Vending is known to be valuable as both a customer retention tool and as a customer acquisition tool. Do you think it's more valuable one way or the other?

Oberton: I think it's both. I don't think it's an either-or thing. We've signed a tremendous amount of business because we have a great program, and we're retaining most of that business.

MDM: Since the inception of your vending program, has your view of which products are best-suited for use in the machines evolved? If so, how?

Oberton: It's probably changed some. The thing I think we've discovered is that the most natural product for this type of distribution is things that people use en masse, like gloves, personal protective gear, safety glasses, things like that, because it's a very good way to distribute it to your workforce. Safety products have been the best, and general MRO has also been very good.

MDM: Is there a disconnect between which products are most profitable and which ones customers want to see in the machines?

Oberton: No, not really, because it seems like the products that are slightly less profitable have greater volume, so many times it works out at the end. I may give up a little margin, but I pick it up in volume.

MDM: How will your new distribution center in Indiana help you reach your goals in vending?

Oberton: We've designed it so it will take work out of the stores. It will make vending a far more efficient business for our store employees.

Our experience is that when you make things easier for people to do, they're going to work harder to sell that system. If I can put in a vending machine and sell \$1,000 or \$2,000 a month, and I don't have a lot of work to do because the warehouse is doing most of the work for me, that's a pretty good argument to go out and sell more.

MDM: Fastenal recently said it would be taking a closer look at underperforming vending contracts; how has that gone? Can you tell me a little more about the initiative?

Oberton: It's going well. What we're finding is that when we go out and visit the customers and have a good, constructive conversation, in a very high percentage of cases, they buy more product from us. It just takes us initiating the conversation.

It's not telling the customer we're not making enough money off it. We're telling the customer that if you're not using this system, it's doing you no good as well, so it's not just one-sided. If a customer has a machine taking

up space in their plant, and they're not using the machine, we want to find out why for both of our sakes. And in most cases, the customer says, "Well, what do I need to put in it? What data do you have that can show me where to go?"

In most cases, customers appreciate the business and try to make it work. In some cases, the customer says it's not going to work out, and in those cases we need to figure out an exit plan. But that's very rare.

MDM: What do you generally find needs to be changed to make it work?

Oberton: It's almost always resetting the product. That's 90 percent of what the meetings find, that we just didn't have the right product in the machine. Either they had requested the wrong product, or we just didn't get it right from the start.

We have 30,000 machines in the field, so we have great data on what's selling and what isn't, and we can break it down based on what type of a business they are. Are they a truck shop or a manufacturer or a small contractor? We can look at our data and do a comparative analysis and say: "Here are the top 20 items or 30 items that sell on a broad scale. We believe you may use the same ones."

MDM: What do you see as the next steps in Fastenal's vending program?

Oberton: I think to just continue to roll it out, and to continue to bring in new things like we're

doing with our distribution. It's like any part of a business, if you want it to get better, you work hard to improve it continuously, and that's what we're going to do with our vending program. We'll continue to work on creating a better delivery system for our customers. That's all it is – a delivery system, and a very efficient one when it's done well.

MDM: Tell me about Fastenal's FAST Crib inventory management technology program and what makes it appealing to your customers.

Oberton: It's a very good inventory management program, and it's very, very flexible. Many customers, especially for medium-sized companies, they don't know exactly how they want it set up, so the FAST Crib allows a lot of customization to meet the specific needs of that customer. It's portable and flexible, which are two words you seldom hear when you're talking about IT.

MDM: How are you balancing your vending initiatives with your more traditional sales and branch approach?

Oberton: Vending is just part of our traditional branch approach, since vending systems sell through the stores. When we look at a vending machine, we just look at it as off-site real estate, just another place to store product for the customer. It is absolutely integrated with our traditional approach.

SnapVend Aims to Even Playing Field

New AD-supported offering adds a low-cost option to market

Vending machine and software suppliers have responded to the demand for a lower-cost option to help distributors serve smaller customers profitably. One of these companies, SnapVend, was developed by safety supplies distributor Mallory Safety & Supply working with VendNovation to integrate its cloud-based technology. Marketing group Affiliated Distributors recently adopted SnapVend as one of its preferred vending suppliers.

This article looks at the place of SnapVend in the market, and how distributors are using the vending solution as one part of a total inventory management service offering.

Industrial distributor Rocket Supply in Cincinnati, OH, expects to have 19 vending devices installed in 2013. Greg Losey, general manager, says almost a third of those machines are from a new low-cost vending provider, SnapVend.

The SnapVend offering is new for Rocket, having launched in late summer. Losey says the program has changed the way the company approaches vending. It's opened up new opportunities. "We're able to take SnapVend into customers who couldn't justify a vending expense prior to," Losey says.

Tim Loy, president of safety distributor Mal-

lory Safety & Supply, collaborated with affiliates of marketing group Affiliated Distributors, AD executives and others to create SnapVend. Loy says the idea was borne out of a desire to help independents compete more effectively in vending against larger national distributors.

More Options

In the past few years, national chains have pushed hard to place vending machines with customers at little to no direct cost to them, a push that Mark R. Higgins, vice president and managing director of Affiliated Distributors' Industrial Supply Division, says has disrupted the market. Higgins says AD affiliates and executives recently began looking for a way to better educate members on the value of vending and to offer them more options for machines.

"I think Fastenal cracked the code a bit by going with free machines, realizing that most buyers can say 'yes' to who they buy from, but can't say yes to a capital purchase," Loy says. Before SnapVend, Mallory was offering a much more robust vending solution at a much higher cost. "We needed something we could afford to put in for customers for free," he says.

Initially, Loy says AD looked for a supplier from which the marketing group could make a group buy. "Ultimately, we realized that our peers within AD could not sign on to a group buy without taking one machine first and really working to formulate a sales strategy. Someone had to proactively sell the solution to other AD distributors and work with them on their sales process for this to take off," Loy says. So Loy, through a separate sales and support arm Mallory created for the purpose, developed a solution called SnapVend.

This summer SnapVend joined CribMaster, which serves the middle to high-end of the market, as a preferred vending supplier for AD. Higgins says reception to the program has been "overwhelmingly positive."

The addition of the SnapVend program "filled a void," Higgins says. "Tim had the right software people. He found the right hardware people, and he put his own resources together to solve a need for independents and AD."

SnapVend, which Loy says has a drawer and RFID solution in development, currently offers coil- and locker-based machines. Vending equipment manufacturer Seaga produces the machines, which are powered by a control board that connects the machine to cloud-based software from vending technology provider

VendNovation.

Loy says the machines run about 30 percent below market for comparable machines from other suppliers in part due to that cloud-based software. Eliminating the need to attach a computer to the front of the machine, Loy says, avoids complexity and database syncing issues and reduces maintenance needs.

Cal Bauer, vice president of marketing for VendNovation, says VendNovation worked with Winona, MN-based industrial distributor Fastenal when it unveiled its own vending program. Fastenal is broadly attributed with sparking the current boom in industrial vending.

"The Fastenal system that they trialed with and launched their program with was actually our controller and our software," Bauer says. When Fastenal's machine supplier Apex Supply Chain Technologies developed its own software to use in the machines, VendNovation was cut out, Bauer says. VendNovation partnered with Loy to create SnapVend to "empower" small independent distributors with the same system and quality of technology, Bauer says.

Place in the Market

Brent Scott, technical solutions manager and vending program manager for Martin Industrial Supply in Florence, AL, says a cost analysis is always required when determining where to place machines, no matter the provider. But because the SnapVend solution is less expensive than most, he says, it's easier to approve placements.

"If you consider that the SnapVend offering is anywhere from a half to a third (the cost) of what we were faced with up until they were introduced, just by the numbers it makes it available to twice as many customers, or more," Scott says. This has allowed Martin Industrial Supply to become more proactive, he says.

The ease of installation with SnapVend is another important benefit. Bauer says SnapVend machines' ability to run in the cloud means they can run anywhere with an Internet connection and troubleshooting can be done remotely. The VendNovation control board in SnapVend machines can also be installed right at the factory. "So we're able to shorten the supply chain quite a bit with the way our technology works," Loy says.

Eric Dillon, vice president of industrial distributor Dillon Supply Company, Raleigh, NC, says the shorter sales cycle of the SnapVend solution was a major factor in his decision to add it to his offerings. A start-up company Dil-

lon was working with needed a vending solution fast. "When we identified the products they wanted to put in there, SnapVend seemed like the perfect opportunity, but what really sold that point was the timing – they needed a machine in three weeks."

Benefits

SnapVend users say although the SnapVend program is new, they expect customers to gain the same general benefits users of other programs enjoy. "Even though it's a less expensive machine, all of the controls are still there," Losey says.

Loy, who already has machines in place with Mallory Safety & Supply customers, says several SnapVend customers have already tracked 30 percent or more consumption reduction, among other common benefits like reduced walk time, 24/7 availability and job tracking. "We have found it is hard to get a customer to switch," he says.

SnapVend also offers the distributors themselves some of the same benefits as those offered by pricier machines.

"You typically pick up additional business when you've got a vending system in place," Losey says. Part of that comes from being in customer facilities more often, and part comes from selling more products to existing customers.

More than once, Scott says Martin Industrial Supply has been able to suggest more items for a new vending machine than what had previously been sold to the customer. "We say, 'Hey, you've got room for 10 more SKUs in the machine.'"

Not wanting to leave the space empty, the customer and rep work together to fill the space. "That's 10 SKUs that they were obviously getting somewhere else that come into our book of business because we've got a store within walking distance," Scott says.

Higgins says at the end of the day, whoever has a vending solution is going to get a preferred look on spot buys and one-offs where there are higher margins.

Part of a Total Offering

SnapVend is not a standalone vending solution, AD's Higgins says, which is why the marketing group also supports CribMaster. Losey at Rocket Supply says SnapVend doesn't threaten his company's relationship with its other suppliers, AutoCrib and SupplyPro, whose solutions Rocket plans to continue to offer moving forward.

"There are a lot of benefits to having them involved in what we're doing," Losey says. "They've got a very broad product offering and very extensive reporting capabilities." The other suppliers also can design complex solutions to meet specific customer needs, he says.

Still, those involved with lower-cost options like SnapVend say it changes competitive dynamics in industrial distribution. "Independent distributors have needed a low-cost solution for a while," Losey says. "We can now compete on an even playing field with the large nationals, and we weren't able to before."

-Angela Poulson

■ Vending Case Study: Machine Tools Supply

Understanding Customer Needs Critical

Design vending programs with customers' unique needs in mind

Mutual benefit should be the goal of any vending and inventory management program, says George Ponce, president of industrial distributor Machine Tools Supply in Costa Mesa, CA. Distributors want to profit from the services they provide; customers want to reduce costs in their supply chain. To achieve that goal, according to Ponce, start with understanding.

"From a higher level, ultimately it's all the same. You have a customer that consumes

goods. They want them in an automated vending process," he says. "But what really makes a program successful is being able to sit with a customer to understand any unique requirements they may have in the plant, understand from a historical perspective how a plant has evolved, its tribal knowledge." Once you understand that, those nuances can be used to customize a comprehensive program that meets a customer's specific requirements.

Gaining that deep understanding from the start makes it easier to evolve as needs and product mixes change, Ponce says. And if you're providing this type of service, think long-term if you want to be profitable, he says.

"These programs are very expensive to implement and to execute in the beginning, so if you're not committed to providing your customer a solution that's going to ensure you're there for the long-haul, you're going to be making these investments over and over and over and not realize the opportunity to be profitable."

Taking the time to understand a site's supply chain needs can open the doors to new customers. Three years ago, Machine Tools Supply met with officials at a large Department of Defense site. The initial meeting was to discuss the benefits of using AutoCrib vending equipment to address their supply chain problems.

"As we learned more about what their issues and problems were, we quickly recognized that a lot of the issues they were having were due to how the supply chain was being managed at that time," Ponce says. "In sharing ideas with them, they encouraged us to get involved with the contract bidding process to provide supply chain services for their point-of-use program."

In the first six months of the program with the Department of Defense site, consumption declined by 20 percent while production increased. In three years, the program has grown four-fold to become one of the largest vending program installations today.

To have a successful inventory management service offering, a distributor can't approach the market defensively "to hold onto a customer that's started talking about it," Ponce says. "If you do things proactively, you can learn to drive cost out of them; if you do things reactively, you'll always be doing things outside of your normal business practices that increase your cost of operations."

Developing the necessary understanding needed to build a successful program for a customer of any size requires two things, according to Ponce.

First, "you have to really pay attention to detail when you're designing the program with a customer." Distributors need to develop a program that will meet the customer's objectives without allowing the list of requirements to become unmanageable and almost impossible to implement. Often this means the conversation will evolve into one that includes other inventory management components, even if it started with vending, Ponce says. "We really view vending as the beginning of a comprehensive inventory management program for the customer."

The second requirement is "good internal insight," he says. You have to build internal efficiencies and keep a close eye on your investments in the programs to make sure your inventory costs don't spiral out of control.

"If you can keep your eye on those two sides, you can be successful at the customer level and also make yourself more profitable without having to add resources incrementally that continue to increase your cost of operations," he says.

As a midsized distributor, maintaining a successful vending and inventory management program in a market dominated by multibillion-dollar distributors such as Fastenal or MSC Industrial Supply can be difficult. "When you're one of the majors in this industry, you have huge inventory resources that a smaller or midsized distributor doesn't have," Ponce says.

To compete, distributors like MTS have to have a deep understanding of how customer requirements affect their own internal operations, as well.

"If I'm doing my job correctly as an inventory manager, I'm able to correctly determine what inventories I need for a customer and manage the supply chains for those inventories in a profitable manner so I'm not investing in excessive costs to compete," Ponce says. "I'm focusing my investments specifically to the customer and providing them with a solution that is designed specifically for them."

"If I do that, I can compete with anybody."

-Jenel Stelton-Holtmeier

■ *Vending Case Study: Deco Tool Supply*

Documenting Vending's Value

Distributor: 'Unless it's documented & presented, it didn't happen'

From the time Iowa-based industrial distributor Deco Tool Supply started PRISM – which stands for Process & Inventory Systems Management – in 1998 to focus on its integrated supply business, vending has been included in the offering.

The distributor, which has 10 locations throughout the Midwest, said it picked CribMaster as its vending partner at that time because of the software the supplier had developed to track inventory usage.

Randy Bergstrom, Deco implementation manager for PRISM, says that if distributors' goals are better inventory management for customers, "you have to have the software that supports the vending machine for the total package."

The software supports what, for Deco, is the most important component of vending programs: the documentation.

One of Deco's customers, with the distributor for 15 years, is a good example of the value of documentation to the customer relationship. The customer just extended its contract with Deco for five more years, in part due to the ongoing value the distributor is adding through its inventory management solutions.

Before installing vending for this customer, Deco Tool Supply surveyed usage for the prior 10 months for a product group; the issues from the crib were \$250,000. Ten months after installing vending, the same crib items dropped to \$160,000.

The same machine was put into another cell at the customer. In the same time period pre-vending, issues were \$120,000; after the machine was put in, usage dropped to \$80,000.

While usage went down, the surprising piece for Deco was that production went up in both cells. "They made more parts with less MRO products being utilized," Bergstrom says. "That affects your bottom line."

The distributor is also able to track the average cost of items per employee on the factory floor with the CribMaster software. The distributor has also tracked metrics such as product per employee per day and cost per process hour. Deco has developed reports to help it analyze a customer's inventory and document and discover where problems may lie.

"We need to prove to the customer on the documentation that it's not costing them money to do business with us," Bergstrom says. "... I've always been a big fan of documentation."

Because of its focus on documentation, Deco has been better able to uncover challenges and test new approaches with its customers.

For example, one customer was losing track of band saw blades, a challenge because "it's not something someone will take home and use in their garage," Bergstrom says. The customer needed to control usage and track who was using the blades.

So the distributor designed a hybrid vending station for the blades with scales and RFID. They tagged band saw blades with RFID tags and found a way to dispense them so that to get a blade, the customer could come to the machine, scan his badge or type in a code, and the door would open.

While this approach worked, the distributor and customer found that employees were still taking the wrong blades. To fix this, they simply added colored dots tied to the machine and department on the RFID tags and put a legend on the outside of the machine.

No matter how effective a distributor is at delivering a solution that helps the customer, "unless it's documented and presented, it didn't happen," Bergstrom says.

"I can go to a customer and tell him in six months that we know we saved you money. If you said that as opposed to here are signed-off documents from your engineering department based on the analysis we ran and you have saved \$150,000 – which one do you think will have more weight?"

And while documentation is important, it's just as important to listen to the customer, Bergstrom says. That's the only way to uncover what the customer wants to accomplish with an inventory management program, whether that is with a vending machine or another service.

Documentation helps Deco continuously tweak customers' programs to better meet those goals. The distributor focuses on finding the right solution for the company's needs, designing systems from the ground up "to give the customer what he doesn't even know he wants

yet.”

“We have about 150 different vending installations, and out of those, the only thing that’s common is they’re all different,” Bergstrom says.

The focus is on finding and eliminating the

biggest bottlenecks. “Our biggest thing is we don’t like to add to complexity. We like to keep things simple. It’s our culture.”

-Lindsay Konzak

■ *Vending Case Study: Stauffer Glove & Safety*

Distributor Hones Approach

Success comes in refining how you approach vending

Stauffer Glove & Safety, a fifth-generation family-owned distributor of safety products, introduced vending as part of its offering close to two years ago in part due to the trend in the market and the push by larger distributors. Stauffer, based in Red Hill, PA, quickly discovered the value vending programs can bring to its customers and itself when approached correctly.

The distributor offers SupplyPro helix and locker vending solutions, focused on both high-turn items where there might be waste and higher-dollar items that warrant control. The latter includes cut-resistant gloves, respiratory equipment, filters and more. “It’s a great way to keep those items under a lock and key and still have them available to employees around the clock,” Randall Stauffer says.

In its initial years, Stauffer says the distributor continues to hone its approach. For example, rather than introduce too many options to customers for structuring a vending program, Stauffer has simplified its pitch and now manages more than 90 percent of each vending relationship, including replenishing

the machines and tracking usage.

Stauffer has also found that it has to communicate clearly what the customer’s role is in making it work as intended. For example, customers have to effectively manage their employee data and respond to the usage trends and other data that result from vending to see the savings they want. Vending equipment and software solutions can provide valuable data and control that can help customers shift employee culture away from hoarding supplies and taking home product.

While distributors can expect to see a decline in usage, and therefore sales, when they introduce a vending program at a customer’s location, Stauffer says distributors who view that as a negative aren’t seeing the whole picture. “We see it as an investment in our own customers that we’re showing them that we’re looking for solutions and truly partnering with them for their greater benefit,” he says. “... It’s not a defensive move as much as we want to reinforce the relationship and partnership we have with existing customers.”

-Lindsay Konzak

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