

## Micro-Markets Go Macro

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Bridging the gap between vending and full-service cafés is the rapidly growing micro-market concept. These unmanned retail shops generally cater to a specific, known demographic within the business segment. (Though some are being test-driven in colleges and universities as well as in hospitality.) They have unlimited variety, incredible flexibility and 24/7/365 access.

“Micro-markets offer the only intuitive and interactive shopping experience in the unattended retailing channel,” says Brad Bachtelle, a consultant who has been following and studying micro-markets for more than three years.

In his *2013 Micro Market Channel Census*, he found that in 2013 micro-markets grew at a rate of 99.2% over 2012. Meanwhile, total product sales clocked in at \$233.8 million—an increase of \$143.1 million over the previous year.

When compared to vending, micro-markets succeed by living outside of a box. A guest can physically touch a product before they make a purchase and that makes a world of difference, reports Bachtelle.

They can read the label. They can mix and match and collect a number of items before checking out in one consolidated purchase. Size doesn't dictate the product mix in the micro-market. Ditto for price points. Plus, there are bundles, loyalty programs and promotions supporting all kinds of buying incentives.

Vending will never be able to do all that.

When compared to a full-service café, micro-markets offer a number of key advantages, especially for smaller-scale offices of under 400 employees. They have significantly lower operating costs while still offering fresh foods and lots of variety. Plus, they don't close—ever—so even though the full-service café closed at 2:15 p.m., employees still have a foodservice option at 5:30 p.m. ... and 8:30 p.m. ... and 7:30 a.m. ... and on Saturday, too.

"Micro-markets are successful in all types of at-work communities," says Jim Brinton, CEO of Avanti Markets (Tukwila, Wash.), one of the industry's leading micro-market providers. "Two of the most significant successes for us have been in our ability to attract a much higher percentage of female customers who weren't traditionally frequent vending users as well as capturing off-hours traffic."



### **Market Menus**

With open shelving, the product mix in a micro-market is truly limitless. As long as an item can be barcoded, it can be sold.

"They shop. They scan. They pay," says Brinton, who spent the bulk of his career in vending before starting Avanti in 2009. "It's as simple as that."

Taking cues from more traditional retailing, where sales, rotating products and self-checkouts are abundant, micro-markets further differentiate themselves from vending with their ability to sell fresh foods.

"We start each market with a standard product mix," says Jim Mitchell, President of Kansas City-based Company Kitchens (CK), which operates north of 1,000 micro-markets. "Then we customize based on the demographic."

Fresh salads, sandwiches, veggie snacks, fruit, yogurt, energy drinks, isotonic, diet sodas—as well as all the traditional snacks and drinks—are part of the product picture in micro-markets.

CK even has a team of chefs who create new recipes monthly.



"We don't directly operate any of our markets," explains Mitchell. "We license the concept to a vending company who either has or works with a commissary to create fresh food. We then share our recipes with those kitchens."

CK is owned by Treat America, which operates three large commissaries,

explains Mitchell. While most CK micro-markets get their fresh products via Treat America, some also source from third-party kitchens.

Avanti also works with third-party kitchens to source fresh products, which make up anywhere between 25%-40% of the items sold (as compared to 6% in vending).

## Refresh and Reload



Some micro-markets need to be serviced daily. Others can get by with a lesser frequency. Either way, smart merchandising and flexibility play big roles.

“I’d say, on average, markets are touched at least three times a week,” says Brinton. “Obviously, it depends on traffic.”

Both CK and Avanti use planograms to help operators stage their micro-markets for the most success. They outfit the space with millwork and pre-selected machines to ensure a standardized look.



“You want the market to have a rich visual appeal,” says Mitchell.

It’s not just about good looks, though. It’s also about offering—and maintaining—variety. With more than double the SKUs of a vending machine, micro-markets require a lot of product. Fortunately, because of their point of sale systems, operators can keep close tabs on inventory and restock as needed.

“We get real-time data on what items are sold so that we know what items need to be refilled,” says Mitchell. “It’s an extremely efficient system.”

Taking it one step further, CK offers users an online tracking system so they can set alerts and keep tabs on the products they purchase in hopes of making better, more healthful choices.

### **Minimizing Shrinkage**

Without a constant eye on the operation, many worry that theft will be a big deal. But, according to Mitchell, Brinton and Bachtelle, it's not.

Quite the opposite, actually.

"Because you're servicing a known demographic, it's a controlled environment," says Brinton. "An employee isn't going to risk his or her job for a candy bar."

Most markets have surveillance systems in place that shoppers are made aware of through standard signage. Others rely on an honor system.

"In a traditional retail environment, shrinkage is around 20%," says Brinton. "We're experiencing, on average, 1.5% shrinkage."

### **Check This Out**

To pay for products in the micro-market customers have a few options.

Credit cards are the most common means of payment. Plus, they don't require any additional steps between shopping and purchasing.

Declining balance is a slightly more elaborate payment system that also eliminates the need for cash. An employee loads funds onto a dedicated card that can be swiped at each transaction, much like a debit card.

Payroll deduct is another choice, though not as popular.

Many micro-markets use a combination of the aforementioned payment systems so as to capture as much traffic as possible with fewer roadblocks. A handful of employers are even going so far as to completely subsidize the market for employees, though "that's not the norm," reports Mitchell.

The biggest challenge, he says, is convincing operators that there isn't a catch to the micro-market solution.

"A lot of companies think it's too good to be true," says Mitchell. "The micro-market solves many issues ranging from employee satisfaction to wellness goals to after-hours dining.

"There are no catches," he concludes. "Only benefits."

**Take a closer look at some examples on the following pages.**

# Florida Blue

*Jacksonville, Fla.*

# of Micro-Markets: 5 (with 2 more coming online soon)



In 2010, Damian Monticello, corporate hospitality services manager at Florida Blue, Jacksonville, Fla., was looking for a foodservice solution for the company's smaller, more remote offices.

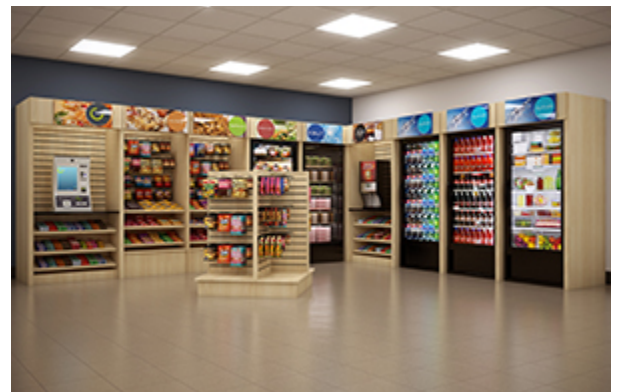
"The sites weren't large enough for a café, unless we had a very substantial subsidy," he says. "But vending wasn't meeting the needs in terms of meal offerings and there were very few off-site options."

Micro-markets proved to be the perfect solution. So Monticello worked with Florida Blue's vending operator (Canteen) to open five micro-markets over the course of three years.

Monticello continues working closely with Canteen on menu cycles for fresh foods as well as items that meet the company's nutritional guidelines.

Each market offers a slightly modified product mix geared toward its unique demographic. In South Florida, guava pastries are popular while Cuban sandwiches are all the rage in Tampa. "We try to offer regional items we know will satisfy our employees," says Monticello.

Four of Florida Blue's micro-markets are stand-alone concepts in offices with little or no other foodservice options. However, its fifth and most recent micro-market—the one in Mechanicsburg, Pa.—is married to a full-service café.



"The café was being overrun during meal periods," says Monticello. "By opening a micro-market we're able to offer another service point."

This proved to be a fantastic idea. Volume-wise, the Mechanicsburg micro-market is the company's highest producing market thus far. And, because of this success, one of the next markets Florida Blue plans to open will also be married to a café.



## SAS Institute Inc.

*Cary, N.C.*

# of Micro-Markets: 3



Micro-markets are not a new concept at SAS Institute Inc., Cary, N.C.

“We built our first Food To Go [FTG] location in our recreation and fitness facility 16 years ago,” says Julie Stewart, senior manager of foodservice. “The second opened a year later and the third opened in 2010.”

SAS’s FTGs, which operate exclusively on payroll deduct system, are especially unique in this segment for one main reason: they are completely self-operated. All fresh food is prepared in one of SAS’s full-service cafés then delivered to the FTG locations twice daily.



“We create fresh foods that are easy to make, easy to transport and stand up well,” says Stewart.

Breakfast items include oatmeal, grits, biscuits, hot breakfast sandwiches, bagels, muffins and pastries. Soup, baked potatoes, salads, hot and cold sandwiches and sushi are the highlights for lunch. Items available all day include beverages, milk, boiled eggs, cheese, crackers, whole fruit, fruit cups, veggie cups, yogurt, cold cereal, chips, snack bags, cookies, desserts, granola bars, candy

and gum.

“What we learned in the first market 16 years ago holds true today,” says Stewart. “Guests want healthy, fresh food.”

SAS delivers on both counts.

## Merck & Co., Inc.

*White House Station, NJ*



# of Micro-Markets: 2 (with a third in the works)

The beauty of a micro-markets is that they can reach a target audience you didn't even know existed.

This is especially true at Merck & Co., Inc. (White House Station, N.J.), where two micro-markets capture peak traffic at 5 p.m., a time that is completely under-served by the company's full-service cafés.

“We're seeing sales during hours when there isn't any other foodservice option,” says Rob Gebhardt, manager of dining and hospitality services at JLL, which handles portfolio management for Merck. “Weekends and early evenings are especially high-traffic periods.”

Run by Canteen, Merck's first micro-market opened a year and a half ago in an isolated building in the back corner of campus. The second opened in the middle of the summer of 2014 in an office building that had previously had a full-service café.

“Our first market replaced a satellite café with very basic offerings,” explains Gebhardt. “We increased the product mix in that outlet from about 75 items to well over 400.”

By doing so, the company increased traffic and usage substantially.



As part of the launch of the second market at Merck, Gebhardt set up a number of promotions to not only educate employees, but also to incentivize them to come and see for themselves what it has to offer.

“For the grand opening, we had a cake, contests, sales, promotions and free samples,” he says. “If a guest shopped the market, we loaded a complimentary \$2 onto their declining balance card.”

Going from a full-service café down to a market was a bit of culture shock, but sales have resumed and are also growing at non-meal peaks just like they are at its other location.

“Our most popular item sold in the market is coffee,” says Gebhardt. “At first, we were using a frozen product, but it was getting poor reviews and sales were terrible. We worked with our vendor to nail down a product that would better suit our population.”

A whole bean machine with a branded coffee was introduced and sales increased by 100% within the first week.

“Just like everything else about a micro-market, customers want a high-quality fresh product,” says Gebhardt, who has recently begun introducing bundles and other sales promotions and loyalty programs to further drive traffic.

## University of Missouri Health Care

*Columbia, MO*

# of Micro-Markets: 1



Before the University of Missouri Health Care (Columbia, MO) opened its inaugural micro-market in August of this year in an office building that houses 500 mostly IT-related employees, extensive surveys and research were done to determine what would sell best in the newly developed space.

“We had a small kitchen and grab and go before, but it was extremely limited,” says Janet Savesky, MS, RD, LD, manager of dining and nutrition services. “A micro-market seemed like it would be a much more useful fit for both the company as well as the employees who work in that building.”

Fortunately, Savesky and her team were able to work with the college to learn more about convenience products and better tailor their product mix to the population.





“We sell fruit cups, wraps, sandwiches, salads, sushi and freshly baked goods all made in-house,” says Lorena Moyer, RD, MBA, assistant manager.

And employees are clearly pleased with the new setup. In just a few short months, traffic has increased by more than 47%.

All fresh products are made on campus and transported to the market daily. “A number of our kitchens shoulder the burden of making these items so that there isn’t any one kitchen overrun with the extra production,” says Savesky. “It’s been a truly collaborative effort.”

## Microsoft Corp.

*Redmond, WA*

# of Micro-Markets: 11 (with 6 more in various stages of planning)



As part of its goal to drive customer convenience in its Café Lifecycle remodels, as well as integrate meaningful technology into its spaces, Dining at Microsoft Corp. (Redmond, WA) developed the Market@ store brand.

Market@ stores are strategically placed on campus (typically, but not always within) existing cafés. They offer convenient food and beverage options during non-traditional café hours.

“It gives us a 24-hour solution to foodservice,” says Mark Freeman, senior manager of global employee services.

Market@ stores offer a much broader and healthier product mix than in vending machines with local, scratch-made, gourmet, artisan, organic, sustainable/fair-trade and specialty (i.e. kosher, gluten-free, halal, healthy, etc.) products being the focus.

“It’s geared toward a whole-food approach,” says Tod Nissle, director of operations for the Microsoft account for Compass Group.



The focus for its Market@ stores has been on gourmet snacks and meal replacement options. The key categories are:

- Sweet (candy, cookies, granola, trail mix);
- Salty (crackers, chips, power bars);
- Gum/Mints;
- Brrrr (Frozen Meals.2.Go);
- Refresh (beverages, salads/sandwiches, yogurts, parfaits);
- Bulk Snacks (seeds, candy, nuts);
- Produce (fruits and veggies); and
- Meats & Cheeses (local).

Each of Microsoft’s Market@ stores has its own unique design, however one must-have accessory hangs in each store.

“Chalkboards encourage employees to make requests,” says Nissle.

“The Market@ stores allow us to be very flexible while staying true to our basic program tenants of driving convenience and participation,” says Freeman. “They add value to our operation in ways traditional foodservice can’t.”

## What's next for micro-markets?

*“Micro-markets will become a standard foodservice offering as companies look to open new facilities. The coolness factor can’t be beat.”* — Rob Gebhardt, manager of dining and hospitality services at JLL

*“There will be a greater focus on healthful items as well as promotions.”* — Julie Stewart, senior manager of foodservice, SAS Institute Inc.

*“Micro-markets will start to incorporate more local and specialty items into the product mix. Client portals will also become more intricate and useful.”* — Jim Mitchell, president of Kansas City-based Company Kitchens

*“Micro-markets would be a perfect fit for employee break rooms as well as doctor’s lounges.”* — Janet Savesky, MS,

RD, LD, manager of dining and nutrition services, University of Missouri Health Care

*“Family-style foods will become a more popular offering for employees to take home with them after work.”* — Tod Nissle, director of operations for the Microsoft account for Compass Group.

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