



Serving the Vending, Coffee Service and Foodservice Management Industries

To the House Subcommittee on Domestic Monetary Policy and
Technology of the U.S. House of Representatives
Committee on Financial Services

STATEMENT OF THE NATIONAL AUTOMATIC
MERCHANDISING ASSOCIATION

By
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Chairman

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Mr. Chairman and members of the committee, thank you for this opportunity to attend this hearing and offer testimony on the subject of coin and currency. I sincerely appreciate the chance to visit with you about critical issues to our industry.

My name is Craig Hesch, and I am the 2010 volunteer national chairman of the National Automatic Merchandising Association (NAMA). In addition, I am the Chief Financial Officer of A.H. Management Group of Rolling Meadows, IL. Our company is a third generation small business which is a full line vending operator. We provide vending snacks and beverages to companies throughout the Chicago area. We also provide music and gaming vending machines to our customers. So while I will visit with you today about coin and currency issues related to the food and beverage vending industry, I can discuss the impact on other vending channels as well.

Our national association, NAMA, is the trade association of the food and refreshment vending, coffee service and foodservice management industries including on-site, commissary, catering and mobile. Our membership is comprised of service companies, equipment manufacturers and suppliers of products and services to operating service companies. The basic mission of the association, to collectively advance and promote the automatic merchandising and coffee service industries, still guides NAMA today as it did in 1936, the year of the organization's founding.

While we will spend the majority of our time in this hearing discussing coin and currency issues, it is important to first note that our association, and our industry, has recognized the national problem with obesity. We share the administration's concern about obesity, and are also working to try and solve this problem.

Our members understand that childhood obesity is a serious issue that must be addressed. It is a complicated problem and the solution requires better education about nutrition and increasing physical activity.

Vending machines can provide healthy options. For example, the Alliance for a Healthier Generation reports that a school district in Florida recently purchased 60 vending machines which are providing students and faculty with "organic items, nutrition and sports bars, fresh fruits and vegetables, low fat milk and dairy selections such as yogurt and cheese sticks, fresh sandwiches, soymilk, bottled beverages and more." Vending can provide healthy "grab-and-go" solutions to meals through refrigerated vending machines which vend breakfast products such as low fat milk and single servings breakfast bars and breakfast cereals.

We have always supported the federal government's "competitive foods" regulation requiring that foods of minimal nutritional value not be sold in school cafeterias when the lunch is being served.

Vending machines are retail locations which provide a variety of snacks and beverages. For example, in addition to standard snacking choices, vending machines are available which sell fresh fruit, fresh vegetables, salads, milks and a wide variety of healthy meal choices. They

provide similar products which are found at other retail locations such as convenience stores, grocery stores and even in the a la carte line in school cafeterias. Like these other retail locations, vending machines can provide what customers want, whether it's a traditional snack or a healthy alternative.

Vending provides a very valuable service to those who work irregular hours, or who may not have full-service meal alternatives. For example, federal workers in the White House and Eisenhower Executive Office Building in Washington, DC use vending for healthy between-meal snacks and for salads after hours. The 24 hour work cycle of these and other government facilities such as congressional office buildings necessitate innovative solutions which vending does provide.

To address the issue of obesity, NAMA developed the Balanced For Life and Fit Pick programs to assist in the issue of providing "healthier for you" choices in vending. Across the country, school and work vending accounts look to our industry and association to partner with them on health and wellness issues. Our voluntary program components help vending operators with tools to help and truly be part of the solution. In addition, because our nutritional programs are a stand-alone resource, each vending operator can easily implement the program he or she thinks is best suited to a particular location.

We agree that childhood obesity is a serious problem that must be addressed and applaud the intent of those working so hard to protect our children. Our members are mothers and fathers ourselves, and certainly want to protect our children's health and future well-being. When we help our children truly understand the elements of a balanced diet and the importance of being physically active, we can have a lasting impact on their lives, protecting and enhancing their futures.

We also recognize that obesity may be related to a lack of healthy options in geographic areas called food deserts. Our solution is to encourage our operators to place healthy choices in vending machines in under-served communities.

NAMA is working to try and test vending machines that will vend Supplemental Nutrition Assistance Program (SNAP) foods in machines which will accept Electronic Benefit Transfer (EBT) cards to help those with public assistance benefits. It is our hope that as convenient retailers, we can assist in solving the problem of food deserts and help reduce obesity.

As a corporate trade association working on these and other issues, we represent the companies which make vending machines, companies which make the snacks, and the companies, like mine, which are the operators of the vending machines.

We have 34 affiliated State Councils encompassing 36 states.

As background, the vending industry is a \$40 billion a year industry, employing approximately 700,000 people who work at an estimated 13,500 companies.

Vending is a major component of the food service industry. According to the industry research group Technomics, vending and office coffee service represents 4.8% of the U.S. food service industry. This is twice the size of Convenience Stores (2.0%) and larger than Supermarket Foodservice (3.4%), Primary / Secondary schools (3.2%) and Colleges / Universities (2.4%)

According to The Vending Times Census of the Industry 2009, there are approximately 5.3 million food and beverage vending machines in the United States.

An estimated 100 million Americans will use one of these vending machines each day, so any changes in coins or currency will directly impact our membership and our customers. It is important to note that while many vending machines accept credit or debit cards, the vast majority of vending machines operate on cash transactions only. Therefore any changes to coin or currency will dramatically affect our industry.

The overall cost of these modifications and of potential refused sales will be significant. And with an industry of small business operators, such increased cost could easily cause businesses to fail and jobs to be lost.

To understand why jobs could be lost it's important to understand the function and costs of a modern coin acceptance system.

Costs:

In current widely used electronic coin acceptors, a coin passes between a pair of sensors; one that transmits a magnetic field and the other that receives a magnetic field. As the coin rolls by, it alters the magnetic field and the variation is interpreted by the acceptor's computer algorithm. Differences in size, shape, or metal content produce different, very precise electronic signatures that determine coin type and denomination. The coin acceptor may be measuring the diameter, the thickness, the alloy and, for certain coins, also the embossing features. Another method of validation uses a series of optical sensors to gather data along the coin path for size and width. The acceptor will then compare that data against preprogrammed criteria. In both cases, a motor or solenoid is used to open and accept the coin into the correct denomination tube or slot. Upon acceptance, the product is vended. Such machines can track sales, make change and reject unacceptable coins. Newer systems even have a "learning mode" which allows the coin acceptors to recognize standard deviations, wear patterns and coin usage to increase the percentage of accepted coins.

Modern coin validator systems that accept, verify, provide security and pay out coins, cost between \$250 and \$475.

For example, I have brought with me today a coin and bill validator. This mechanism costs \$450, and takes 20 minutes to install. If it needs to be reprogrammed to accept the new designs of a new U.S. Federal Reserve Note, it will cost \$100 and take 20 minutes for a trained technician to reprogram the device, in addition to travel time to the location.

With approximately 5.3 million food and beverage vending machines in place today, a \$100 upgrade would cost the industry \$530 million dollars.

But an estimate of the cost may be much more complicated. For example, one NAMA member estimated that it would cost the entire vending industry billions.

First, companies would have to spend millions of dollars on design and development to even identify equipment that is capable of handling the changes. The more drastic the changes, the greater the cost of engineering.

Cost to convert currency equipment can be as low as \$100 if the validator unit is fairly modern and has programmable memory. Some companies supply simple and “free” upgrades, but that does not include the cost to locate, travel to, update and test the device at each machine. A typical estimate would be around \$100 per machine for a simple reprogramming.

If the unit is older and requires new hardware or potentially an entirely new device, then the costs jump an additional \$100 for low end devices to \$500 for higher end devices. The most common costs would be in the \$300 - \$400 range.

If the changes in the currency impact either the size or electronics required to detect and handle the bills then the units would have to be replaced. Again, this would be at a cost ranging from \$100 to \$500. Examples of changes which would require more costly upgrades would include coin plating technology or Federal Reserve bank notes that significantly differ in width and length from our current notes. Mechanical changes to the size or weight of coins would also dramatically increase costs, and the coin validators would have to be re-engineered.

In addition to 5.3 million food and beverage vending machines, there are approximately 1.3 million amusement machines, 750,000 to 1 million gaming devices, 1.5 to 2 million retail, car wash and other specialty devices, 2 million parking meters, and millions of cash handling or currency counting devices in banks and retail locations.

So if you consider the total number of mechanical devices which handle coins and currency, one member estimates that the cost to replace or reprogram coin and currency validators could be in the billions of dollars. Again, the more dramatic the changes to coins or currency size, shape or weight, the more expensive the cost to the industry.

Coin Changes:

We are prime customers when you have a discussion about changes to coins and currency. On the issue of coins, the National Automatic Merchandising Association (NAMA) in 2008 supported H.R. 5512 which provided that the alloy content of future coins, while reducing production costs for the taxpayer, must work in existing coin-acceptance equipment in our country’s vending machines and anywhere where coins are used without modification to that equipment.

Regarding changes to the metal content of coins, thanks to the superb quality control program of the United States Mint, Americans confidently make vending a frequent choice in retail shopping. The industry has a very high trouble-free vend rate thanks to consistency in coin, currency and new coin validation technology. However, rising prices for copper, nickel and zinc

have pushed the cost to make pennies and nickels above their face value and have reduced the profit the government makes on dimes, quarters, half dollars and dollar coins.

We recognize this increased cost of minting these coins. And as American taxpayers, we understand the importance of reducing the federal deficit. However, changing the composition of coins could very well lead to expensive modifications to coin mechanisms by the vending industry.

When the Sacagawea dollar coin was introduced, the mint successfully worked with the industry in finding an alloy that met the requirements of the Mint in color and size, yet still resembled the electronic signature of the Susan B. Anthony dollar coin. When the U.S. Mint introduces new quarter designs, we have had no problems with acceptance rates. For the newly designed America the Beautiful National Park quarter dollar coins, we have had no problems with acceptance in our coin validators.

This is due to successful partnerships we have had with the Mint and with their very professional staff.

It is critical that future alloy changes follow a similar path to ensure that any changes don't impact our industry.

With fluctuation in metal commodity prices, we encourage the U.S. Mint and decision makers to continue to consider the vending industry – a prime customer – in any changes in coin composition. For example, if the Mint were to produce steel coins or plated steel coins, such as being considered by other nations, we would argue that we as prime customers would be severely harmed. Any such changes would cost the industry jobs.

NAMA, the World Wide Vending Association and national vending associations from around the world generally oppose coins manufactured from multilayer plated materials especially for higher value coins.

Using multilayered plated material in coins could cause numerous problems. For example, multilayer plated steel construction could have similar Electronic Metal Signatures which may not allow coin validators to distinguish coins correctly. Manufacturing variability and wear in circulation could additionally lower the reliability rate of vending machine equipment. Also, plating facilities are very widespread around the world for many other common applications, making any combination of materials readily available and creating a huge potential supply for criminals. It is important that any changes in alloy content or composition of coins take into consideration that we do not want our coins to become an attractive target for counterfeiting.

It is very important that any changes in alloy or material be allowed only in low value coins such as a penny or nickel. In addition, it is critical that any alloy and any steel must come from a very controlled source or comply with highly consistent technical standards.

And most importantly, while it may be less expensive to mint coins with different alloys, there will be a significant cost associated with the upgrade of the coin validators used in vending, and

indeed in all other industries that use electronic coin validation. In all situations a trained staff member will be required to visit each coin validator to carry out the modifications to the coin sensor limits. In addition, some coin validators may not be able to be upgraded to discriminate new coins satisfactorily and will have to be replaced with more capable versions.

For example, if changes to the metal content occur, this will require expensive reprogramming of most coin validators. Such reprogramming requires a technician to visit all vending machines and transfer new data to the coin validators.

If mechanical changes are made to the coins, such as changes in sizes or weights, then these changes will require even more expensive changes to our coin validators. Expensive entire redesigns to the coin validators in addition to reprogramming will be required. We would strongly urge the committee to oppose any mechanical changes to coins.

We are also concerned that changes in coinage would change the acceptance rates of coins. It is possible that coin validator manufacturers may increase the verification security level of coins thereby restricting and lowering the acceptance rate of the genuine coins to protect against counterfeiting or misreading of the coins. However, customer dissatisfaction may occur because too many apparently good coins will be rejected and vending sales will be affected.

Currency Changes:

Regarding changes to currency, we also applaud the Bureau of Engraving and Printing for outstanding quality control programs. The BEP is a very responsible partner. They regularly make confidential advanced copies of currency available to the industry so that we can evaluate new currency to accommodate and update our bill validators.

We also call to the attention of the committee that our members who manufacture coin and currency validators are committed to providing their customers with the best products, technology and services which are available. They have a long and distinguished record of providing very effective tools to process coins and currency to ensure accurate transactions.

The Bureau of Engraving and Printing will soon implement changes to the currency to accommodate the blind and visually impaired in distinguishing currency denominations. BEP is responding to the U.S. Court of Appeals decision that the Department of Treasury failed to design, produce and issue paper money to assist those who can't distinguish bill amounts. BEP studied changes in sizes (length and width), three tactile features (cluster pattern of raised dots, notches cut into the currency, and heavy intaglio raised print bars) and three commercially available currency readers.

We support reasonable changes to U.S. currency to accommodate the visually impaired, but we must ensure that currency readers in vending machines can validate the currency without undue burden to the millions of customers who purchase vended products every day. NAMA also opposes any changes to the currency which will unnecessarily burden the thousands of small businesses which operate vending machines. With approximately 5.3 million food and beverage vending machines in use today, any changes which would require replacement, modification or

reprogramming will harm the industry. These costs could result in job reductions and price increases, thereby creating an unfair disadvantage for our industry versus other retail channels.

As an example, anecdotally, when European nations switched from their currency to the Euro, all coin and bill validators had to be modified. This was enormously expensive for vending operators across Europe. We understand that since operators spent all their capital on new coin and bill validators, that very few other vending equipment, such as new machines or energy efficient equipment, was purchased. This dramatically harmed vending operators who couldn't increase costs to recover these new expenses.

We would specifically oppose changes to the size of the currency as this could dramatically change the physical design of our mechanism. This may be the most costly change which could occur. We would also oppose notches or cuts which might make verifying currency very difficult. As unattended retailing, trouble free validation ensures ease of use for our customers, but also easily rejects counterfeit or tampered currency. For example, when bills are refused, sales are lost and customers are upset. Dramatic changes to the physical design such as size changes, notches, punches or cuts could result in increased costs to replace equipment, and could result in more bills being refused, resulting in lost sales.

So we strongly encourage the committee and the Bureau of Engraving and Printing to continue to partner with our members and with our association as any changes are discussed. In fact, we recommend that an advisory group be formed to assist with the technical matters related to any changes.

Our members are experts in the field of validating coins and currency. So our expertise could be invaluable to ensure that any changes are properly implemented.

We also recognize the debate about how changes in coins and currency should take place. We generally support allowing the U.S. Mint and the Bureau of Engraving and Printing the authority to conduct research and development on potential changes. But we hope that Congress will retain their authority to allow such changes.

It is critical that there is sufficient time, prior to the introduction of new coins or currency, for the industry to review and have access to any changes. It will take many months to accommodate changes. So such research and development may allow additional time for industry input on the potential economic impact of coin and currency changes.

Mr. Chairman and members of the Committee, thank you for this opportunity. We are honored to be able to make these comments and welcome the opportunity to work with you on these issues in the future.