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Using Micro Markets to Expand Randolph-Sheppard Income and Opportunities

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This document was prepared on behalf of the National Council of State Agencies for the Blind, following discussions of vending challenges and opportunities at the NCSAB conference in Bethesda, Maryland, in April 2018. NCSAB would like to thank all the participants in the discussion for their contributions to the content of this document. NCSAB is particularly grateful to Curtis Glisson and John Gordon, NCSAB Randolph-Sheppard Committee Co-Chairs, for their leadership in this discussion, and to Joshua Prosser, the lead author.

The purpose of this paper is to provide State Licensing Agency personnel with an overview of how micro markets can expand business and revenue opportunities for blind entrepreneurs, and to share insights and lessons learned by states that are deploying this business approach in collaboration with, and on behalf of, their vendors. This document is intended to inform, but not replace, guidance provided to State Licensing Agencies and blind entrepreneurs by the Rehabilitation Services Administration. In particular, NCSAB urges any state agency experiencing issues with federal permits or renovations to notify Jesse Hartle at RSA; Curtis Glisson and John Gordon, the NCSAB Randolph-Sheppard Committee Co-Chairs; and Catriona Macdonald of Linchpin Strategies, working on behalf of the NCSAB, to promote national coordination of policy, and to avoid potential actions taken by individual federal property managers that could undermine the Randolph-Sheppard priority nationwide.

Introduction: Why Micro Markets?

Like other workplaces, federal offices are changing. The workforce is downsizing. More employees are telecommuting; some traditional offices are shifting to “hoteling” workspaces used by whichever employees are in the office on a given day. Buildings that used to have enough employees to support cafeteria services – sometimes 24 hour services - no longer have sufficient numbers to make cafeterias profitable. In some cases, with fewer employees and more competition from new fast casual food outlets, food trucks, and other dining options, even in-house snack bars are not sustainable. Recently, GSA estimated that one-third of its in-house concessions are not currently profitable.

In many of these cases, traditional vending may not meet customer demands or generate an adequate living for blind entrepreneurs, either. Increasingly, federal buildings (and the customers who work in them) request more fresh items and more healthy options. Buildings with significantly smaller nighttime workforces may still retain 24-hour food service requirements. Customers may have significantly more low-cost, fresh food choices, and in many cases traditional vending is experiencing a decline in revenues as customers vote with their feet.

Increasingly, SLAs are finding that micro markets can help fill the gap created by shrinking workforces, rising costs, and increasing customer demands. Moreover, the private sector is increasingly requesting micro markets, and Randolph Sheppard vendors need to be ready to provide those services as private industry becomes more important for program growth and survival. Micro markets allow for a wide variety of configurations and food options; reduce staffing costs; and can attract and retain new customers whose food preferences are not met by traditional vending. Micro markets can replace unprofitable cafeterias; supplement snack bars; or increase options relative to vending machines. By enhancing the variety of products, expanding the potential customer base and shopping hours, and increasing typical sales volume and profitability, micro markets have been successful alternatives in places where more traditional options have struggled financially. Even in buildings where there is no current perceived “problem,” micro markets may represent a valuable investment in customer satisfaction and increased vendor income;

according to micro market kiosk provider Parlevel, replacing vending machines with a micro market increases sales by an average of 80 percent.

What, exactly, are micro markets? What buildings might be best suited for them? What is the range of configurations that have been successful for blind entrepreneurs? Why should vendors who are comfortable with their traditional machines challenge themselves to learn to manage a micro market? Which technologies are most accessible? What have BEP directors who have led the charge learned the hard way, and what questions do they wish they had known to ask before they jumped in? This paper will begin to answer those questions.

Defining Micro Markets

What are micro markets?

Micro markets are fully automated, self-checkout retail food establishments. Instead of placing items for purchase inside a machine, inaccessible prior to purchase, micro markets allow customers to examine products, including nutrition information and expiration dates, in the process of making a purchase. Micro markets typically include refrigerated cases and racks of longer-life packaged goods. They may provide salads and sandwiches intended for purchase within 24 hours, or more shelf-stable refrigerated products such as yogurt in addition to beverages. Micro markets can also make non-food items available for sale. Where a bank of vending machines may offer 50-100 products, a micro market in the same space may have as many as 500 choices.

Once customers make a selection, they use a scanner to identify their products for purchase and pay by inserting cash into a machine or using an electronic payment method. Prominent security cameras, often including monitors that allow customers to see themselves as the camera sees them, help to reduce theft and littering. Space permitting, adjacent seating areas can attract customers and make the micro market an attractive gathering place.

Although micro markets can operate in conjunction with a snack bar, grill, or other staffed location, micro markets themselves are typically unstaffed. Software alerts the micro market manager when inventory is low and restocking is needed. Although some micro markets offer an option to pay with cash, the vast majority accept only electronic payment options. This increases security for the market and the vendor. Likewise, electronic inventory management and income tracking systems include reports that help vendors identify and adapt to customer preferences, simplify mandatory reporting to SLAs, and make verification and audits easier and more efficient.

What do micro markets offer?

Micro markets are becoming increasingly popular with building managers, customers and vendors, as they can offer advantages over other food service operations. Compared to vending machines, micro markets offer increased selection and variety, including the ability to sell a range of different product sizes. Some vendors have found success selling basic grocery items like a half-gallon of milk for customer convenience; DC is exploring having prepared meal kits such as Hello Fresh delivered to the micro market for employees to take home at the end of the workday. Micro markets also present an opportunity to sell healthy and prepared foods, drawing in more customers while making it easier to meet healthy vending requirements. Where vending machine purchases average about \$1.50, typical purchases in a micro market are about a dollar more.

Vendors are not just limited to selling food and drinks. Many micro markets include personal care and convenience items, with everything from air fresheners to phone chargers. Non-food items can often be sold at higher profit margins, and certainly have a longer shelf life. Don't be afraid to get creative!

Because of reduced labor costs, micro markets are significantly less expensive to operate than a snack bar, café, or cafeteria. Of course, vendors are still required to stock markets. Some blind entrepreneurs may choose to be present in the micro market at certain times of the day to meet and greet customers, gather information about consumer preferences, promote specials and build relationships. However, security

cameras and automated payment methods eliminate the need for constant staffing during the hours that the market is open.

GSA building managers and BEP programs are not the only ones who have recognized the potential of micro markets. According to Automatic Merchandiser, there were fewer than 3,000 active micro market locations nationwide in 2012. By 2017, that number had skyrocketed to almost 24,000, an increase of close to 800 percent in just five years. Increasingly, national brands such as 7-11 are pitching micro market options to bring their products to customers instead of having customers come to them. Traditional vending competitors are moving to micro markets, but there is growing competition to offer this approach: the convenience store industry is poised to jump in should any Randolph Sheppard agency not react fast enough to customer requests for this service.

Buyer Beware: One size does not fit all

BEP managers familiar with micro markets caution: just as with the design of any food services, it is important to keep in mind that each building and customer base will present a unique challenge and opportunity. This document is intended to be an introductory guide for Randolph-Sheppard programs, SLA staff, and vendors interested in micro markets. While it covers the basics, it cannot touch on all the possible variations of micro market set-ups. SLAs and vendors will need to coordinate and engage with building managers and customers at their market locations in order to ensure quality service and profitable outcomes.

Nuts and Bolts of Micro Markets

What buildings are best suited to micro markets?

In general, buildings with limited access and a structured, in-house population are considered to be most appropriate for micro markets. Government buildings are often an ideal location because of the closed nature of those facilities, with micro markets traditionally thought of as

being best suited for facilities with building security and a known population of consistent employees. Having a closed, controlled environment with restricted exposure to the public reduces security risks, and enables the vendor to build a relationship with the potential customers within the building. Initially, many micro market operators believed that micro markets could only control theft in settings where customers were known, and where employees could be tracked down if they were seen on video to be stealing. However, more recent experiments in quasi-controlled, and even fully publicly accessible, sites have demonstrated that micro markets with appropriate security measures do not experience significantly more shrinkage than other locations.

For example, the Cannon House of Representatives Office Building in Washington, DC houses offices for Members of Congress and their staff. Although there are security scanners and personnel at each entrance, it is completely accessible to the public during business hours. It is connected via underground tunnels to two other public-access House office buildings that both have large cafeterias with multiple meal and snack options and ample seating. The micro market, located on the first floor, replaced a struggling basement snack bar with vending machines and limited seating. The prior snack bar and seating area was staffed at any given time by three to five employees who made sandwiches, manned the cash register, restocked shelves and cleaned the seating area. The replacement micro market is completely unstaffed, except for re-stocking. It uses typical security measures, including large screens showing security camera footage and signs alerting patrons to security measures (see section on security, below).

Similarly, several states have been invited to establish micro markets to offer food service to staff, jurors and the general public in federal courthouse buildings. Customers may work in the building; may report for jury duty daily for a week; or may visit only once. Again, with appropriate security measures, shrinkage is manageable and may not exceed that experienced by traditional locations.

How many customers does it take to support a micro market?

Just as with any food service operation, the most important consideration for micro market suitability is the customer base, including the number of employees and other foot traffic. GSA Concessions Management recommends vending machines for building populations up to 400, with snack bars suggested beyond that threshold; its guidance currently does not address micro markets. BEPs advise that there is no upper limit to the number of people a micro market can service, but additional space, inventory, and kiosks may be required for larger building populations. Many third party vendors to BEP programs look for 300 building employees as the “sweet spot” for micro markets. NAMA advises that micro markets generally need to serve 100 or more patrons per day to reach a consistent break-even point. The basic guideline of 300 employees and 100 daily customers is a useful one, but building-specific factors should never be overlooked.

As with other types of food service, there is no absolute guideline that works for every facility. A micro market in an urban building with many nearby fast-casual options and food trucks parked in front will need many more employees to turn a profit than one in a smaller suburban office building where other lunch options are a 10 minute drive away. Micro markets that offer the only fresh options in a building, or the only food services available for the night shift, may receive many more patrons than those located in a building that also has a cafeteria or snack bar open during certain hours. Identifying the food service niche that the micro market will fill will help to determine the number of likely customers for the market and whether or not the building can support this option.

Questions to ask when evaluating a building for a micro market could include:

- How many employees work in the building?
- How many of the employees are regularly out of the office (ie, work part time, telecommute, or travel to other locations on a regular basis)?
- What are the other nearby food service options, whether in the building or in the area? How many offer food services at a comparable price point or quality? What distance do people have to travel to get to them?
- Are the other food service options available during all the hours when the building is staffed?

- Is the customer base of people who work in the building supplemented by other potential purchasers?

In situations where the customer base is too small for a full-size micro market, a nano market can serve as an appropriate solution. Nano markets share the increased variety of a micro market, and appeal to customers who might not visit vending machines, but on a smaller scale adjusted to better suit the reduced population. A nano market is recommended for buildings with at least 150 people. In D.C., a Department of Health building put a nano market on each floor, with about 65 people per floor.

Nano markets also can be used to supplement larger micro markets. In Alabama, a car parts manufacturing plant with about 250 employees specifically requested the installation of a micro market as a more efficient way for employees to quickly grab a meal or snack during their break and lunch periods. With the main micro market located near the front of the building, the SLA also set up a nano market in a break room at the back of the plant so employees working on that side wouldn't have to cross the entire plant to make their purchases.

How much space is needed for a micro market?

Micro markets come in many different configurations, and can be stand-alone or supplemented by grills, food prep areas, seating, and other amenities. The setup flexibility of a micro market allows them to operate in small spaces. In D.C., nano markets have been opened in as little as 60 to 70 square feet. DC has even opened a micro market in a former conference room, when other suitable space was not available. Space requirements will ultimately depend on, and inform decisions about, additional amenities.

In many cases, BEPs may not have many options: the location of the micro market within the building is decided upon by the building manager. In other cases, particularly new construction or conversion of a snack bar or cafeteria, BEP may have options to negotiate the location or configuration of the space. When we have that opportunity, what should BEP be thinking about and asking for?

The first consideration should be options to make the space more attractive to customers and more profitable for the vendor. Can the micro market be adjacent to a seating area, to encourage people to visit, buy and linger? When transitioning from a snack bar or cafeteria to a micro market, for example, it can make sense to utilize the current seating space. In Georgia, several micro markets have set themselves up to imitate a lounge environment, with leather chairs, televisions, etc. The Georgia BEP reports that those touches have significantly increased micro market sales. However, Georgia recommends that seating areas near the micro market should be smaller than those at a snack bar, with no more than 20-25 seats for market customers. This is to retain the micro market as a place where people come to buy lunch, and prevent it from turning into a place where people bring food purchased elsewhere to eat away from their immediate offices.

In cases where the space is not readily available, costly renovations might be a reason to avoid adding a seating area. Many micro markets choose not to offer seating areas, as they take up more space and can be more challenging to maintain and keep clean. However, seating areas can increase foot traffic and purchases as employees from different parts of the building meet for coffee, sit for a meal, or take an afternoon break away from their desks. Part of the seating decision process should include reaching out to building management and employees to get an idea of what they want from the micro market.

Another crucial factor in the amount of space needed is adaptations to enhance vendor profitability. While a seating area is optional, BEP managers experienced with micro markets strongly recommended pursuing installation of a food prep area adjacent to the micro market or in the near vicinity wherever possible. Even if prep space is not used immediately by a vendor who is adapting to a new micro market, negotiating for the space up front when the micro market is first installed gives vendors the option to prepare their own food later down the road.

In any moderate volume operation, controlling the cost of goods is key to enhancing income. Fresh items such as sandwiches and salads can be expensive to purchase ready-made, and transportation or delivery adds additional costs and logistical challenges. Vendor-prepared food typically has the highest profit margin of any micro market food products; it also provides an opportunity to respond very precisely to customers'

preferences. Several micro markets in Georgia have found that offering fresh sandwiches was the key to gaining new customers; these patrons also end up purchasing other items, like chips and a drink, increasing both revenue and profits. A nearby space for the vendor (or a part-time employee) to prepare fresh items on-site can maximize the profit potential of the micro market.

Georgia is also experimenting with some creative micro market combinations. One vendor has a manned grill space and food prep area near the micro market. In the morning, the vendor offers hot breakfast items. Employees can use their smart phones to place and pay for breakfast orders as they get close to the building; hot food is ready for them to pick up upon arrival, with no payment delays to hold up the customer or take the vendor away from preparing other orders. After the breakfast rush, the vendor can make fresh sandwiches and salads for sale later in the day.

Food prep areas near micro markets may be simplest in locations that are being converted from existing cafeterias or snack bars. They do not need to be large, but it is helpful to have a sink arrangement for hand washing and food prep (consistent with local regulations); some counter space; and a refrigerator and/or freezer. In the event a space is too small or otherwise unable to include a food prep area onsite, other alternatives that are less ideal may also be workable. Vendors in Georgia have used shared kitchens. In Florida, micro market managers have purchased prepared food from nearby Randolph-Sheppard cafeteria managers to create a mutually beneficial relationship within the program.

As with every other aspect of micro markets, there are exceptions to the recommendation to include a food prep area. For example, the micro market at the U.S. Patent and Trademark office in Virginia does not sell prepared food, because hot and fresh food selections are available from several snack bars and a full-service cafeteria in adjacent buildings. In this case, the micro market's niche (which does include some food items such as yogurt) does not include products that would require on-site preparation. Nevertheless, in general it is wise for BEP managers to secure storage and/or prep space adjacent to micro markets when possible, to maximize their vendors' flexibility in the event of future changes to the food offerings in their buildings.

Related to the question of a vendor prep area is the question of countertops with devices for customers to prepare food. Some vendors may want the option to allow patrons to make coffee, toast bagels, pop popcorn, and heat sandwiches, soups, and other packaged, refrigerated or frozen items purchased at the micro market (HotPocket, anyone?). Vendors have experimented with microwaves, toasters, panini makers, and other accessories. Some devices have proven to be more successful than others. Georgia has removed all of its panini makers due to concerns about customer burns and resulting liability. Some BEP managers recommend making nothing but a microwave available for customer use. Just as with seating areas, customer cooking devices raise issues of maintenance and cleaning, and some vendors may not choose to provide them. Whatever devices the vendor opts for, now or in the future, adequate counter space will be needed, along with an electrical supply.

What should we consider when transitioning from vending machines to a micro market?

Done well, swapping in a micro market in place of vending machines can double vendor sales – or more! However, that exchange may not be appropriate for every vending location. Considerations could include:

- What is the building management looking for in food services? What are their expectations of micro markets?
- What are building employees and other customers looking for from the micro market? What do they expect?
- What other food services are in the building, or nearby? What would be the food service “niche” occupied by the micro market?
- How many vending machines do I currently have, and how much square footage? Most micro markets need more space than vending machines.
- Do I have an option to secure space beyond that currently occupied by vending, for enhancements such as food prep, food storage, or seating?
- Will the building partner with me in making site adaptations to accommodate seating, food prep, or storage? Does the BEP program have the budget to make these updates?

- Are nano markets, including installing nano markets in building locations that currently have vending machines and those that do not, an option that can meet customer demand?
- Can a micro market help the vendor respond to other pressures, such as demand for more healthy options or fresh food?
- What arrangements for providing fresh or more profitable options in a micro market might be available, whether vendor-prepared or secured in partnership with a central kitchen or other Randolph-Sheppard food service facility?

This is a long list of questions to consider. However, in the right situation, upgrading a vending bank to a micro market has the potential to significantly increase sales revenue and profitability for the vendor.

What should we consider when transitioning from a snack bar, café, or cafeteria?

The major incentive to make the switch from a snack bar, café, or cafeteria to a micro market is the reduction in staff costs. For example, a light snack and coffee bar at Ft. Stewart, GA was converted to a micro market because the vendor could no longer afford payroll. Since the switch, the micro market has gone from barely breaking even – sometimes not even breaking even - to becoming one of the most profitable locations in the state. Micro markets also provide flexibility for people working nontraditional hours who might not have been able to eat at a location with more traditional hours of service.

Depending on the site and the setup of the existing cafeteria or snack bar facility, conversion to a micro market with seating, food prep and food storage areas may be relatively inexpensive. Questions to consider could include:

- What is the building management looking for in food services? What are their expectations of micro markets?
- What are building employees and other customers looking for from the micro market? What do they expect?
- What other food services are in the building, or nearby? What would be the food service “niche” occupied by the micro market?

- Is the current location the best possible place for food service? Is this transition an opportunity to move food services to a better, more central or more accessible location in the building? What are the costs and benefits of staying in the same place? What are the costs and benefits of moving to a new space in the building?
- How much square footage is currently occupied by the cafeteria or snack bar? What adaptations might be needed to create a smaller, cozier or more manageable facility?
- Will the building partner with me in making site adaptations? Does the BEP program have the budget to make these updates?
- Are nano markets, including installing nano markets in building locations that currently have vending machines and those that do not, an option that can help meet customer demand and supplement the offerings at a larger micro market?
- What arrangements for providing fresh or more profitable options in a micro market might be available, whether vendor-prepared or secured in partnership with a central kitchen or other Randolph-Sheppard food service facility?

Infrastructure: What You Need and How to Get It

In the section above, we have discussed building size and foot traffic considerations, square footage and design considerations to maximize customer appeal and vendor profitability. Now, the rubber hits the road: what kind of physical infrastructure is needed to support a micro market, and who pays for it?

First, the nuts and bolts (literally). One significant benefit of micro markets is that the fixtures used can often be easily arranged to fit the space available. This allows micro markets to adapt to the facility, rather than requiring major structural changes. Basic micro markets require a power line; typically, existing electrical lines that supported a vending machine are adequate for a micro market. Some micro markets require wired connections for purchasing, inventory or security software and hardware; others are wireless.

If you have the option to augment your micro market with a food prep area, then additional utilities, such as a water line, may be needed. If you are making a transition from a snack bar or cafeteria, consider rearranging the location instead of conducting major renovations. Transitioning from vending machines to a micro market might require additional facility changes, particularly if adding a food prep area.

One important consideration for buildings in parts of the country that get particularly hot in the summer or cold in the winter is the building's policy regarding cooling and heating after hours and on weekends. In places where the building is not climate controlled in off hours, vendors have returned on Monday morning to melted or otherwise spoiled products. In those cases, additional cooling or heating may be needed in the near vicinity of the micro market.

What display items are needed?

The first step to outfitting a micro market is deciding upon a product mix. Once you know what you want to sell, you can work on figuring out how best to display those items. Micro market vendors typically have a combination of shelving units for packaged food items and personal care/non-food products, and small refrigerators for cold food and beverages. Some may even have a small freezer for frozen items. Typically, these fixtures are considered a startup cost and are paid for by the SLA.

Who pays for utilities?

It is typical for buildings to cover standard utilities, and SLAs are encouraged to push for this arrangement. Data connectivity is generally considered a utility as well, but BEPs should check to make sure that is included in permits before agreeing to them.

Who pays for the kiosks?

SLAs are expected to cover the cost of the kiosk(s), with that cost including freight, installation, and training costs for anyone involved in the

micro market. Vendors are then expected to handle upkeep, including regular payments to the kiosk company for the use of software for customer purchases, inventory management and access to periodic software updates. Most companies charge a monthly service fee, a set rate typically around \$150 per kiosk. The vendor also pays approximately five percent per sales transaction, with the rate depending on the number of kiosks that a company or operator is running.

Before installing kiosks, SLAs and vendors will need to discuss how to connect those kiosks to the internet in order to receive software updates, communicate with other kiosks, update the inventory, and more. The first step is to determine if the micro market needs a dedicated internet system. Though some facilities allow vendors to use the existing internet in the building, some vendors have had difficulties with internet security protocols in these situations, and have found it easier to install dedicated internet access. In these situations, SLAs generally cover the installation fees, with vendors paying the associated monthly fees. Different kiosks have varied connectivity capabilities. Some are able to operate using wireless internet. Others need a hardline connection.

In order to sell vendor-prepared food, a barcode label is required so the kiosk can recognize the item being purchased. To produce the barcode label, vendors will need a specialized label printer. The Epson Color Works TM-C3500 Label Printer (\$1,790) and the Primera LX500 Color Label Printer (\$1,325) are two examples of label printers currently being used by Randolph-Sheppard vendors. These are treated similar to kiosks, with SLAs making the initial purchase and vendors maintaining the machines.

Who pays for security equipment?

As with the kiosks, SLAs typically cover the cost of all initial surveillance equipment, including cameras and monitors. Vendors then have two options for recording and storing surveillance video. The first is a closed loop system that can only be viewed on a monitor located on the premises. Though this limits accessibility, there are typically no additional costs associated with this method. The second option is to use a third party online system that backs up all security data on a cloud-based server, allowing vendors to access that data via a secure website from anywhere they have internet access. Vendors are responsible for covering additional,

optional costs related to electronically storing or accessing security footage and data via a third party.

What do SLAs need to pay for?

Support of GSA and other federal agencies for infrastructure depends on where you are, how much the building wants a micro market, and the personality of the building manager or permitting agent. In situations where GSA comes to the state BEP, the state licensing agency has more bargaining power. For example, in D.C., GSA pays for renovations if the building manager asks for the micro market, and expects the BEP to cover the cost when it is requested by the SLA. Some building managers are more flexible, and others are more limiting. It helps to stay in touch with BEP colleagues across the country to collect examples of cases where building managers have been more willing to cover costs, which you can use in permit negotiations with your own local facilities.

Individual states also have different policies regarding what they will or will not pay for; RSA presents another layer of written prior approval to be negotiated. Just as different building managers have different policies, different RSA fiscal staff may come to different conclusions about cost allowability. As one example, below is a list of items recently submitted to RSA by Florida:

Approved:

- Kiosk hardware
- Shelves
- Reach-in coolers
- Open air coolers
- Reach-in freezers
- Barcode printers and labels
- Security cameras
- Security monitors
- Installation of cameras and monitors
- Furnishings, seating, tables, and small display tables
- Microwaves
- Toasters
- Three compartment sink

Denied:

- Payments for required electrical needs
- Payments for required internet and data connectivity wiring
- Dedicated air conditioner
- Installation of a dedicated air conditioner.

NCSAB is currently in discussions with RSA regarding federal prior written approval and concerns about both timeliness of approvals and RSA limitations. For further discussion of, and tips for, RSA approval, see the section on Randolph-Sheppard Rules later in this document.

More Logistics: Regulations, Kiosks, Payment Options, & Security

How are micro markets regulated?

Micro markets are not currently defined by the Food and Drug Administration (FDA), and don't fall into any existing category. They are still subject to FDA food code regulations; state and local regulations may be more restrictive. Vendors should consult the local food codes in their areas for more information. It is also important to check the classification of a micro market in your area, as it determines equipment specifications and regulatory oversight for taxation, licensure, and inspection. This is especially important when dealing with fresh and prepared food. For example, D.C. requires a three basin sink in order to have air pots for coffee, while Florida only requires a three compartment sink if cooking is involved.

Which companies have the best track record for accessible kiosks and back end software?

There are a number of companies in the self-checkout market that offer kiosks and software for micro markets. The majority of these companies have similar levels of accessibility for customers; ADA accessibility requirements do apply. Connecticut warns colleagues to pay attention, in particular, to table top micromarket kiosks; Connecticut installed one on a table that was too high to be wheelchair accessible, and

had to pay several thousand dollars for a replacement table that was ADA-compliant.

Vendor accessibility is more complicated. Blind vendors have had success with Avanti, Square, 365 Retail Markets, and Three Square Market. All four companies offer companion apps that provide real-time payment tracking and inventory management for vendors, and purchase options and account information for customers. Software vendors offer different levels of training and customer support for blind entrepreneurs. We recommend talking with SLAs and vendors that are operating micro markets to ask questions, learn more about their experiences, and determine which vendor is most likely to meet your BEP program's needs.

Micro market kiosks come with many shapes, sizes and features. Some are free-standing cases measuring over five feet tall, while others are smaller, table top models. Some require a hard line data port and internet connection while others are able to connect wirelessly to the internet. Some systems can function like a cash register during manned hours and then convert to a self-checkout kiosk when unmanned. Some systems use tablets instead of costly kiosks. We understand that soon, micro markets will be available that do not require a kiosk at all, and will operate using apps on customers' smart phones to identify and process payment for purchased items. The field is changing and innovating rapidly. Before purchasing your system, review your options, check the monthly fees and costs, and start early in discussions about which expenses the building will cover.

It is worth noting that some vendors have had difficulty using current kiosks and software programs. NABM and other organizations have been advocating to improve the accessibility and functionality of these systems for blind persons, both as vendors and customers. Most software vendors will work with BEPs to offer vendor training, sometimes even providing group sessions, one-on-one training, and ongoing technical support at no cost to the SLA or vendor. NCSAB hopes to see micro market providers introduce innovative solutions in the near future.

Cash or cashless? Open or closed?

Micro markets offer two sets of options for payment: cash or cashless, and open and/or closed payments. The vast majority of micro markets are cashless. Cashless operations can help with security, eliminating the need to regularly collect cash from machines and the possibility of having that money stolen. Cashless purchasing options are an important part of serving the modern workforce. According to a CapitalOne bank survey conducted in 2018, 34 percent of millennials (and 25 percent of respondents over the age of 55) said they “rarely or never” carry cash. Those still interested in allowing cash transactions are limited to larger, more expensive kiosk models. Vendors should check with local authorities before making a final decision, with some places like D.C. requiring cash as an available payment option to serve the unbanked.

Cashless payments come in open and closed loops. A closed loop is any form of payment that does not require external approval, processing, or connectivity. Closed loop payment methods include prepaid micro market cards, employee ID cards, and thumb or fingerprint recognition. The benefit of closed loop transactions is that there are no additional transaction costs imposed by an outside party.

An open loop payment involves an outside agency for electronic transaction authorization, payment, processing, and settlement; examples include credit cards and debit cards. The benefit of open loop transactions is that the payment infrastructure is already in place, and most people already have access to that form of payment. Vendors are encouraged to allow open payments, as it is a much more accessible payment option to the customer that does not require additional work by the vendor. New payment options that appeal to younger customers, including Venmo and Zelle, offer open loop payments from smart phones without service fees.

How is security addressed with open displays of merchandise?

It is standard practice that the micro market supplier (the vendor) assumes responsibility for security of the micro market and its products. Prospective vendors are often surprised to hear that shrinkage rates for micro markets typically range between one and two percent, with a 1.5 percent as the estimated industry average. This is primarily achieved by

two simple security measures. The first is the building selection. Having a relatively contained environment for a micro market significantly reduces the likelihood of theft. This is especially true when vendors have a relationship with building managers that allows them to report suspected thieves within the building.

The second measure is to put up security cameras, and if possible, broadcast that security footage in real time on a screen visible to market customers. Signs and other displays can also be helpful in alerting customers that they are being monitored. When considering what check out kiosk to get, think about a built-in security system, or at least a built-in screen on which customers can view a real-time feed from a security camera. Many kiosks, including several options from 365 Retail Markets, Avanti, Square, and Three Square Market, come with built-in security measures including security cameras, biometric thumbprint scanners, and more. Current micro market vendors also recommend considering Nest Cam home security cameras as a cheaper, a la carte security camera option that allows vendors to watch security footage anywhere they have internet access. Particularly for micro markets in more open environments, clearly visible displays with security camera output (such as a screen that shows customers in real-time what the security camera sees or records) are essential to preventing theft.

There are some federal buildings that do not permit security cameras. In these situations, it is especially important for the vendor to build relationships with customers, and to monitor inventory carefully. To date, blind vendors operating in those situations have not dealt with significantly higher shrinkage rates, in large part because of the closed nature of those buildings. One possible solution is to staff the micro market during busy hours of the day to both discourage theft and allow the vendor to engage with customers.

Staffed or unstaffed?

Though generally thought of as unstaffed, there are situations where having a staff member on site with a micro market can be advantageous. In Florida, a vendor operating at a court is considering staffing the micro market during the busiest parts of the day when jurors are in the building, and leaving it unstaffed the remaining hours when it is occupied primarily

by court employees. The most profitable location in Georgia, the Federal Aviation Authority, is staffed during business hours to allow the vendor to prepare and sell hot food like a snack bar. It is unstaffed for the remaining time to provide customers with an option after other food services have shut down. Having a staff member on site also helps build a relationship with building employees and gives them a chance to see vendors in action. Vendors find that when they have a stronger relationship with customers, patrons are less likely to steal and more likely to help keep the facility clean.

Product Options: Market Breakdown

What can we expect to sell at a micro market?

There are a variety of product options for micro market vendors, and each location will need to tailor its inventory for its specific clientele. NAMA research shows that on average, in 2014 micro market vendors earned approximately 41 percent of sales revenue from cold drinks, 31 percent from snack food, and 26 percent from fresh food. Of the fresh food, sandwiches comprised 42.9 percent, salads 9.4 percent, wraps 5 percent, and “other” represented 15.8 percent. In many cases, micro market vendors see sales of drinks and snacks shoot up when introducing fresh food, with people purchasing a bag of chips or a drink to go with their sandwich or salad.

Micro markets allow vendors to sell products that are not available at vending machines, including a variety of item sizes. Some customers might want a snack size, while others want the king. Micro markets allow vendors to provide both options. According to Hershey’s, in 2013 micro markets that carried both regular and king size Hershey’s products saw a 25.5 percent increase in candy sales when compared to markets that only carried regular size candy products. Several vendors have also expressed interest in partnering with a recognized health food label (Whole Foods, Sprouts, etc.) to license their food and pay a commission. Name recognition can help drive sales, particularly for health food. Fresh food can be a big driver of sales, but doesn’t always make sense in buildings with cafeterias or snack bars nearby.

A number of micro markets also sell a number of personal care or convenience products, or small quantities of office supplies. A larger micro market in Florida has expanded to selling socks, greeting cards, phone chargers, and more. One of the distinct advantages of micro markets is the ability to sell a wide variety of products. Vendors are encouraged to customize their product mix as they grow more familiar with their customers and learn more about their preferences. Examples of potential items for a personal care section include:

- Headache remedies
- Cold remedies
- Allergy remedies
- Eyedrops
- Toothbrushes
- Small toothpaste
- Small mouthwash
- Dental floss
- Small deodorant
- Nail clippers
- Emory boards
- Combs
- Brushes
- Hand sanitizer
- Shaving cream
- Razors.

Should fresh food be produced in house, or brought in from a third party?

Over time, SLAs have discovered that there are both pros and cons to vendor-prepared fresh food. Preparing the food in-house is almost always the cheaper option, and will offer higher profit margins. This requires a food prep area, preferably onsite, and necessary permits.

The biggest advantage of purchasing from a third party vendor is name recognition. This is particularly helpful for healthy food, as customers recognize and trust certain brands (i.e. Whole Foods). Many customers are willing to spend more money on a label they recognize and trust. The downsides are higher costs and a shorter life cycle for the food. At times, vendors have raised concerns about the quality of third party food, and the

reduced ability to adjust it to respond to customer preferences. Some micro markets have found success starting with third party, and transitioning to in-house food prep over time, cutting costs and building a menu of more desired food items.

Some SLAs have developed creative options to have the best of both worlds. In Georgia, with agreement from the SLA, one office has entered into an agreement with Fooda that offers food from local businesses for purchase at lunch on a rotating basis. Outside vendors are not allowed to sell drinks, snacks, or other products that are available in the micro market. Employees who come down to buy their lunch entrée from the outside company are also more likely to buy beverages, chips, cookies, or additional products at the micro market. In this way, micro market sales are expanded, and employees can conveniently purchase the branded options they want without leaving the building.

When is the best time to re-stock a micro market?

Like so many other decisions, this will vary from location to location. While most micro markets are restocked early in the morning, some vendors restock at slower times during the day to give them a chance to be seen in the market. Most vendors do not restock every day; about three times per week is typical.

What profit margin can vendors expect to make with a micro market?

As with any business, profits are dependent upon attractiveness of the product and experience; responsiveness to customer demands; creativity in expanding sales; and cost of goods sold. According to NAMA, the average profit margin for a micro market is 15 percent. This is dependent on a number of factors, including whether the vendor is preparing fresh items him/herself, or purchasing them from a third party. Self-checkout locations average \$40,000 per year in annual revenue. The cost breakdown as a percentage of sales is, on average: 60 percent direct product and labor costs, 12 percent equipment depreciation and overhead allocations, and 13 percent other (including vehicle expenses, credit card processing fees, shrinkage/refund, and commission to locations). The

creative ideas discussed throughout this paper offer opportunities to increase both sales and profit.

Rules Related to Randolph-Sheppard

Does a micro market qualify for a permit under the Randolph-Sheppard Act?

Yes. Micro markets on federally controlled properties, like other food services, should be permitted under the Act.

Vendor-managed versus third party

The ultimate goal for any micro market is that it be actively managed by a blind entrepreneur. Benefits of vendor-managed micro markets include: retaining maximum profit for the vendor; improved ability to cater to client needs; and building a closer relationship with the location and clientele, which helps to preserve the Randolph-Sheppard priority. In situations where it is impossible, or exceedingly difficult, for a blind vendor to operate a micro market, partnering with a third party is preferable to losing the permit. Temporary servicing by a third party leaves the possibility open for a blind entrepreneur to take over that location at a later date.

When can the match be used to renovate?

SLAs nationwide have been pushing back on RSA's refusal to allow match funding for renovations, making the case that the inability to use funds for those purposes is a major hindrance that can cripple programs that don't have other funding sources. As a result, the restriction is not as firm as it once was. We encourage SLAs to advocate for their programs, and to talk with their peers and use examples from other parts of the country in negotiations with RSA fiscal staff.

Criteria for use of matching funds for micro market renovations differ widely from state, making it difficult to offer guidance that is useful in every region. The task force offers the following tips, with the caveat that BEPs should always keep in mind what has worked in your state in the past:

- Never use the word “construction.” Randolph-Sheppard funds cannot be used to pay for construction. In some places, “renovations” may be acceptable; in other states, “renovations” are synonymous with “construction” and are disallowed. In Alabama, “renovations” are considered to increase the value of an outside party’s property and are not a permissible use of Randolph-Sheppard funds.
- Some BEPs have had success using “update” or “maintenance of an existing facility.”
- A focus on rearranging the location or putting in new fixtures may be helpful.
- It can be helpful to state explicitly that the BEP expects that a micro market should include the capacity for the blind vendor to make some amount of product to replenish inventory, include higher profit margin items, and maximize income.
- When switching from registers to kiosks, refer to associated costs as necessary to “update” the registers.

What kind of training do vendors need to operate a micro market successfully?

NCSAB strongly recommends developing a micro market training module to include as part of your curriculum. This will help vendors become more comfortable with new technology and approaches. Again, many software companies are willing to partner with SLAs for such training, often at reduced or no cost to the program.

VII. Marketing

How do vendors market to customers and get feedback?

Before starting a micro market, it is extremely helpful for the vendor to reach out to building employees. Whether this is done via an internet survey, a printed questionnaire, an informal focus group run by the vendor, or in-person interviews, developing an understanding of what customers (including building management) want is vital. This provides the vendor with information to help him/her start off on the right foot, and builds a relationship with potential customers. It is also a valuable opportunity to gain a better appreciation of the level of foot traffic to expect.

Social media is a cheap and easy way to market to employees. The options most used by blind entrepreneurs are Facebook, Yelp, Twitter, Instagram, and Foursquare. Once customer contact information is captured, vendors can send alerts, offer promotions, and spread the word about the micro market. Vendors have also found success using office building email servers and onsite promotion with flyers and other posters.

Another option is to partner with building managers or employers to promote mutual objectives. An employer who is working to encourage employees to eat healthy might be willing to highlight fresh and healthy micro market products in a presentation, newsletter or email. Vendors may be invited to address meetings of employees to discuss new products or solicit input for updated offerings. Vendors may offer samples of snacks or fresh items at employee gatherings as a way of promoting the market and increasing foot traffic. Be creative!

The best way to get feedback from customers is to be as accessible as possible. Stopping by the micro market every day may not be necessary, but vendors should be present often enough that customers get to know a bit about them and how they manage the market. Many vendors leave their contact information at checkout in case a problem arises. This is another, subtle way to get customers to recognize the blind vendor's name. Most checkout kiosks include an option on the screen to leave a comment that is then emailed to the vendor, a kind of electronic suggestion box. If vendors are seeking answers to a specific question, leaving a short, printed questionnaire or survey at checkout is another option.

Getting customers to the market is an extremely important step, and the focus of the strategies touched on here. Those efforts fall apart, however, if the selection and purchasing experience is poor. It is imperative that the first few times a customer uses the market are as seamless as possible. Staffing a micro market for the first couple weeks of operation is a potential option that would offer immediate assistance and troubleshooting should customers have any troubles with the self checkout, along with the previously mentioned perk of vendor exposure. Once regular customers are used to the kiosks and vendors are reasonably confident that the majority of initial problems have been dealt with, vendors can adjust to a more typical staffing schedule.

Conclusion

Micro markets have a lot to offer, compared to more traditional food service options. Their adaptability to different locations enables them to be profitable in a number of unique environments where more traditional approaches may not generate sufficient revenue or income to support a blind entrepreneur. The most important thing to remember is that vendors need to know their market. No two micro markets are identical, and the most successful micro markets are the ones that are best customized to meet a location's specific needs. With vending machine revenues declining in recent years, and labor costs limiting a number of larger food service facilities, micro markets offer an innovative alternative that buildings are starting to ask for. Convenience stores and other suppliers are ready to respond. BEP programs nationwide should be prepared for those opportunities as well.