Vending in emerging countries

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Vending in emerging countries, byÂ Euromonitor International In this feature, Euromonitor examines the recent rapid development of the vending channel for impulse food and drinks in emerging markets, driven by a more modern vending infrastructure and changes in lifestyles, and eating and drinking habits. The potential for growth in this channel, which is not yet mature, remains high, even though operators and food manufacturers still face numerous obstacles.

Vending â€“ a channel still in its infancy in emerging marketsThe vending channel appeared only over the last five years in most emerging countries, and shows a strong potential for growth, as obstacles to the development of this channel in terms of machine security and consumer habits are to some extent being gradually overcome. Favourable macroeconomic conditions and greater consumer confidence also drove overall sales of impulse food and drinks in most emerging markets between 1999 and 2004, which encouraged major operators to increase product availability through a variety of channels, including vending.

The number of vending machines has developed rapidly in China since 1999, when this channel was in its very first stages of development. By 2004, vending had grown immensely in China, with machines becoming increasingly present at airports, and in subways, stores, parks and many other major public places in big cities. However, most of the population is not yet accustomed to buying goods from vending machines, and, sometimes, consumers purchase a product just to satisfy their curiosity. In addition, the usage of coins as a method of payment for daily shopping is relatively low in China, where it is more common to pay with banknotes.

In Brazil, Coca-Cola was a pioneer of vending machines, and the first "Coke Machines", initially operated with tokens, were set up in S?o Paulo in May 1992, thus initiating modern operations in the vending channel. "Coke Machines" rapidly became popular in key locations in the country's main cities, and the number of machines increased by 107% between 1999 and 2004.

Vending is also a relatively new distribution channel in Russia. Even though it existed during the Soviet era, it disappeared at the beginning of the market reform period in Russia, as frequent fraud and vandalism caused significant losses for vending operators and suppliers. However, following the launch of new coin denominations in 1998, which increased the value of coins 1,000 times, new vending machines could work with coins again, which gave new possibilities for operators.

In India, the lack of suitable coin denominations can be considered the single most important reason for the low level of maturity of the vending channel and its relatively slow development. Following the high inflation and the devaluation of the Rupee against all major currencies during the early 1990s, coin denominations are too small to be convenient for a vending machine.

In most emerging markets, machine security remains another main concern for vending operators, with vandalism and fraud hindering the development of vending machines. In Russia, the use of counterfeit coins is an important risk, and, as a result, it is taken into account when setting the price of the products. In India, the widespread presence of attendants handling tokens has enabled a reduction in the risk of vandalism.

Changes in consumer habits and perception of vending fuel growthAcross major emerging markets, sales of impulse food and drinks through the vending channel have recorded rapid growth between 1999 and 2004. The recent development of sales of impulse food and drinks in the vending channel was accompanied by a corresponding increase in the number of machines, although the evolution of the main emerging markets researched shows some marked contrasts.

Euromonitorâ€™s recent study on sales of major impulse food and drinks products available through machines located in public places showed that China and Mexico are among the most dynamic markets, with CAGRs of 18% and 25%, respectively, in US$ terms between 1999 and 2004. Brazil recorded the slowest growth, but mainly as a result of the devaluation of the Real against the US dollar. Meanwhile, in Russia, vending has been enjoying a renaissance since 2002, as numerous vending machines were installed in Moscow and St Petersburg in 2003 and 2004, and, in the latter year, value sales more than doubled.

The dynamism of the vending channel and its greater acceptance by the public were largely driven by changes in consumer habits. The increasing urbanisation of the population in most emerging countries, with a surge in the population in the biggest cities, which correlated with an increase in traffic at public spaces, was a positive factor for the development of the vending channel. These factors led to more frequent usage of machines, especially among teenagers and young adults, most notably in China.

In addition, the trend towards snacking has contributed to the greater popularity of products usually sold through the vending channel, such as carbonates, confectionery, and sweet and savoury snacks.

Consumers have also become more familiar with some of the major international impulse food and drinks brands available through mass retail channels, which makes them more easily recognisable and gives them new possibilities to explore the vending channel, despite the strong competition from other channels, especially the ubiquitous kiosks in Russia and the mobile street hawkers in Mexico.

The perception of the poor quality of vended products is also being overcome, partly because vending operators often adopt high-profile branded products. For example, in Mexico, the packaged cakes brands Gansito, Chocorroles and Pinguinos, from Bimbo, available in the vending channel, are well known amongst most Mexicans across all age groups, and they benefit from their image of high quality and freshness

Carbonates no longer the main driver for growthAmong impulse products covered in Euromonitorâ€™s study, the most popular product in the vending channel in emerging markets in 2004 is carbonates, reflecting a situation similar to that of developed countries. However, other soft drinks perceived as healthier, most notably fruit/vegetable juice and bottled water, gained ground over carbonates between 1999 and 2004.
This trend was particularly apparent in China, where value sales of fruit/vegetable juice and bottled water through vending increased by over 400% and 255%, respectively, between 1999 and 2004, whereas sales of carbonates were up by around 129%. Among Chinese consumers, young adults increasingly drink bottled water and fruit/vegetable juice, and this age group also happens to show the greatest propensity towards usage of vending machines. Unlike in other emerging countries, sales of hot drinks were negligible in China.
In India and Russia, the most popular food and drinks products sold through vending are tea and coffee, while sales of carbonates remain relatively marginal, generally appealing to a narrower range of the population, such as teenagers in Russia. This contrasts with the Mexican and Brazilian markets, which are well developed for carbonates.
In India, the rapid increase in sales of hot drinks between 1999 and 2004 was mainly driven by the dynamism of tea, while, in Mexico, coffee sales accounted for the bulk of the additional sales.
Beyond soft drinks and hot drinks, sales of impulse food remained relatively marginal, with the exception of China, where sugar confectionery and biscuits are often available through vending machines. However, the improvement of the vending infrastructure and the development of the offer of products available in the vending channel led to a rapid increase in impulse food sales. In Mexico, for example, value sales of confectionery and sweet and savoury snacks increased eight-fold between 1999 and 2004.
More modern technology makes vending increasingly appealingThe development of a more modern vending infrastructure thanks to the use of machines with more recent technology is a major factor boosting the image of the vending channel. Hence, the consumer perception of vending has gradually changed, with a greater trust in the reliability of the machines and in the quality of the products that they offer.
In China, vending machines selling goods that can be paid for by mobile phones recently appeared in GuangZhou. Industry sources reported that this kind of machine is very popular among young people. Similarly, in Brazil, mobile phone operators have already tested payment via mobile phone in the vending channel, although its development is still hampered by the extra cost of the machines.
However, obsolete technology is still prevalent in some countries. For example, in India, most machines used for dispensing tea and coffee remain fairly basic compared to international standards, and most of them are token operated. The tokens can be purchased from an attendant by paying the amount in cash.
Greater presence of leading international manufacturers of food and drinks Many leading global food and drinks manufacturers increased their presence in the vending channel in emerging markets between 1999 and 2004, and the potential for growth for these companies remains promising.
Soft drinks manufacturers Coca-Cola and PepsiCo successfully expanded their presence in Russia, where the former drastically increased its number of vending machines in shopping centres, in railway stations and, more rarely, in parks and on street pavements in 2003 and 2004. In Brazil, where carbonates dominates sales of impulse food and drinks through vending, the pioneer Coca-Cola acquired a large share in this channel.
Within hot drinks, Nestl?â€™s Nescaf? brand became widely available in vending machines in Russia. In Mexico, the company started to install vending machines in stores in Guadalajara and Monterrey in 2003. In India, hot drinks manufacturers have expanded their presence rapidly, with Nestl? and Caf? Coffee Day setting up numerous token-operated machines with an attendant.
Among major food producers, the confectionery producers Wrigley and Mars, the latter with its chocolate brand Dove brand, have gained a strong presence in China.
A promising future for the industrySales of food and drinks through vending in emerging markets are expected to remain buoyant, helped by favourable macroeconomic conditions and rising disposable incomes. This positive trend should be also fuelled by a rise in both domestic and international tourism, as well as by new consumer habits, as the trend towards snacking is likely to gain ground.
In most emerging markets, the continuous expansion of major cities, together with the building of new shopping centres and the modernisation of transport interchanges, is expected to lead to new opportunities for vending operators to install new machines. Hence, the rise in the number of machines should continue at a fast pace.
Meanwhile, strategies from product manufacturers, in terms of product packaging, and flavours innovations, together with advertising and promotional activity, should contribute to boost overall impulse purchases of food and drinks from consumers, which will also impact the vending channel. This positive trend could also be accompanied by the emergence of new products in vending, for example RTD tea or functional drinks.
The use of new technology such as cashless payment systems, using smart-cards and mobile phones, and improved monitoring systems, also using mobile phone technology and the internet, could help to increase the penetration of vending machines, by providing added convenience.
Some notable country-specific factors will shape the future evolution of the vending channel in emerging markets. In China, value sales are expected to double between 2004 and 2009, reflecting a similar increase in the number of machines. Hosting the Olympic Games in 2008 will influence the development of the retail infrastructure: traditional kiosks and small independent stores may be forced to close, creating opportunities for vending operators to fill the gap in the market. Operators able to deploy machines accepting notes will be best placed to capitalise on these potential gains.
In India, the evolution of the vending channel will also depend on the issue of payment means. A change in the coinage could revolutionise the fortunes of the channel, as was seen in Russia from 2002. However, it may fall to operators to drive the market, by rolling out banknote-accepting machines.

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