



Talking Points

How to Help Clients Know You are Honest and Ethical

The points discussed below have been designed to help you discuss the issue with prospective accounts. In particular, accounts that are thinking of choosing a different operator on the basis of a higher commission rate being promised should understand these key facts about our industry.

Low Profit Margins Doesn't Equal High Commissions

The truth is that the vending industry operates on very low profit margins, and your accounts need to understand this basic fact about our industry. Let your clients know that your industry is highly competitive and has relatively low profit margins. To help you demonstrate this message, we have collected the figures used in the 2007 NAMA Operating Ratio Report (ORR) which looks at the median profit and expenses figures for vending firms all across the country. According to the 2007 ORR, the median profit rate for operators, before taxes, ranges from 1.9% - 6%. In addition, the report found that the median commission rate being paid to accounts was 6.6% of sales, and this figure included the many accounts that do not receive any commissions at all. Your account should know that any operator that is offering to pay more than 6% commissions should be asked to explain how he or she can afford to offer such high commissions and still profit as a company.

Explain to your client that in the ORR, operators from across the country reported on various financial aspects of their operations, including the percentage of costs associated with operating and payroll expenses. According to the report, the ranges for these expenses were:

Operating expenses: 18%-22.5%

Payroll expenses: 20%-27%

If your account tells you that your competitor is offering to pay higher commissions, you should urge the account to share these figures with the competitor for clarification. Unless that operator can point to some aspect of his or her operations that is

significantly different from these percentages, it is difficult to imagine how the competitor could actually pay the higher commissions.

You should also be very open about all aspects of your organization's operations, and encourage your accounts to ask questions. When asked the same questions, unethical operators will most likely not be as open, and will be unable to demonstrate how, exactly, they can offer unusually high commissions when presented with the facts surrounding our industry's actual operating expenses and profit ratios.

Share Financial Information and NAMA Audit Best Practices

Your account should understand that not only are you willing to share financial information, but you are willing to participate in an audit at any time. You should make sure your client understands that any operator not willing to participate in an audit immediately comes under suspicion. You should also offer to share the NAMA Vending Industry Accounting Best Practices, which was created by NAMA in 2002 to help detect the under-reporting of sales, and is included in this Tool Kit. You should remind the account that any operator conducting business ethically will be more than happy to share this document with the account and participate in the NAMA Audit Best Practices as well. If an operator is unwilling to share this document with the account, or to participate in the NAMA Audit, it would be important to determine why it is not possible.

Also, invite your clients to visit your company to see first-hand how the financial accounting takes place. Your invitation will underscore that you are an ethical operator who has nothing to hide. Your account should understand that there is cause for concern when the account experiences anything less than a complete "open door" policy.

Provide Transparent Financial Reports

In your financial presentation, include GROSS sales figures if possible. If you will be reporting NET sales figures, make sure your accounts know exactly what those costs will be and why they are necessary.

You should also explain the pitfalls of receiving commissions based on vague qualifications such as "after adjustments have been made for spoilage, route shortages, overhead or other costs." Obviously, there are some operators who have legitimate costs that must be taken into account when the commission rates are established. However, you should take time to make sure that your account understands that a serious vulnerability is created when an operator says that commissions will be paid "after accounting for costs such as spoilage, route shortages and other costs." Without a formal accounting for these actual costs, it is possible for an unethical operator to use

these “adjustments” as an excuse for under reporting sales, which translates into reduced commissions on gross sales.

Highlight Technology Where Possible

Today there are web-based monitoring systems that provide complete transparency for operators and clients alike. Wireless, real time reporting systems allow customers to login in through a web site to review the sales and revenue of any vending machine in their location. This instantly verifies reports provided by the operator.

If you use a real time monitoring system, explain how the software gives the customer complete transparency for all aspects of machine transactions, along with invaluable information about every machine. Real time monitoring systems can be expensive, but if you have one – or are thinking of investing in one -- be sure to underscore the benefits of this system to your account.

Also, explain how your company accounts for money as it is collected from a machine; specifically if there is any advanced technology you use for this process. Highlight the dangers of an operator who is unwilling to have the client participate in the process. Tell your client that you welcome their participation in each part of the process. Certainly the client should be alarmed if they are dealing with any operator who is unwilling to have an account representative be an active participant in any part of the process.

Tell Them About NAMA!

Make sure your accounts know that you are a member of NAMA. Explain that NAMA, which represents the nation’s vending, coffee service and onsite food management industries, has addressed the issue of unethical vending operators by making it mandatory for all members to sign the NAMA Business and Ethical Standards Code. Be sure too that they know that part of that commitment requires NAMA members to promise to abide by the NAMA Vending Industry Accounting Audit Best Practices.