



## **Ten Tips for Working with Your Vending Operator: *How to Tell if Your Vending Operator is Honest and Ethical* *(Use this as a leave-behind for your accounts)***

**1. The vending operator promises exceptionally high commissions.**

In an industry that is highly competitive with relatively low profit margins, any operator who promises unusually high commissions immediately becomes the subject of suspicion. According to the 2007 National Automatic Merchandising Association (NAMA) Operating Ratio Report (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 that figure includes many accounts that do not receive any commissions at all. 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.

**2. An operator offering excessively high commissions is also offering low priced products and is also providing the machines.**

Some honest operators can offer accounts higher than ordinary commissions by raising the price of the products. Other operators can offer higher commissions because the site owns the machines. If the operator is offering high commissions but is still providing the machines and low cost products, there is cause for concern.

**3. When asked to account for excessively high commissions, the operator is unable to effectively pinpoint how its company's operations are different and thus translate into higher commissions.**

In the ORR, operators from across the country reported on various financial aspects of their operations, including the percentage 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%

Unless an operator can point to some aspect of his or her operations that are significantly different from these percentages, there should be hard questions about whether he or she will be able to pay the high commissions being promised.

- 4. The operator is not very open about sharing financial information and reports. When asked, the operator is not willing to participate in an audit.**

NAMA has developed several tools to help demonstrate to accounts that their vending operator is conducting business in an honest and ethical manner. Specifically, in 2002 the organization unveiled the NAMA Vending Industry Accounting Audit Best Practices. The procedures in the document are designed to detect the under-reporting of sales – also known as the ‘R’ factor. 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.

- 5. The vending operator is unwilling to share clearly defined gross sales reports. If the operator is only willing to provide net sales reports, the deductions that have been made for expenses such as sales tax, bottle deposits, etc., are not clearly identified.**

An important part of the NAMA Accounting Best Practices is an extensive review of various internal financial records to evaluate everything from accurate deductions for sales tax and can and bottle deposits to sales by customer and total sales reported. If an operator is unwilling to share these reports and evaluate them with the customer step by step there is reason for the account to be concerned.

- 6. The vending operator says that commissions will be paid 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, 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 the actual gross sales.

- 7. The vending operator has no system in place to account for the money as it is collected from the machine. Also, the operator is unwilling to have you participate in the process.**

Obviously, there is a tremendous turnover of cash in the vending industry, which creates another opportunity for unethical operators. Ethical vending operators should have a system in place to account for and control access to the money, and should be very open to discussing the subject. In fact, the operator should welcome you into the entire process. Certainly there is cause for alarm in dealing with any operator who is unwilling to have the account representative participate in each part of the process.

- 8. The vending operator is unwilling to have you visit the company to see first-hand how the financial accounting takes place.**

Ethical operators have nothing to fear, and, in fact, are usually very proud of their operation. There is cause for concern when the account experiences anything less than a complete “Open Door” policy.

- 9. The vending operator has no system in place to monitor inventory control which would enable him and his customer to demonstrate and verify sales, product turnover, and income when and as needed.**

The best way to demonstrate ethical business practices is through transparency of operation. The operator should show, in a verifiable manner, all aspects of a specific machine’s operation. Further, the ability to monitor sales, income, and inventory, as close to real time as possible, will also streamline operations and reduce costs.

- 10. The company isn’t a member of NAMA.**

The National Automatic Merchandising Association, (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. As part of that commitment, NAMA members promise to abide by the NAMA Vending Industry Accounting Audit Best Practices.