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Coke Tests Vending Unit That Can Hike Prices in Hot Weather

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Taking full advantage of the law of supply and demand, Coca-Cola Co. has quietly begun testing a vending machine that can automatically raise prices for its drinks in hot weather.

"This technology is something the Coca-Cola Co. has been looking at for more than a year," said Rob Baskin, a company spokesman, adding that it had not yet been placed in any consumer market.

The potential was heralded, though, by the company's chairman and chief executive in an interview earlier this month with a Brazilian newsmagazine. Chairman M. Douglas Ivester described how desire for a cold drink can increase during a sports championship final held in the summer heat. "So, it is fair that it should be more expensive," Ivester was quoted as saying in the magazine, *Veja*. "The machine will simply make this process automatic."

The process appears to be done simply through a temperature sensor and a computer chip, not any breakthrough technology, though Coca-Cola refused to provide any details Wednesday.

While the concept might seem unfair to a thirsty person, it essentially extends to another industry what has become the practice for airlines and other companies that sell products and services to consumers. The falling price of computer chips and the increasing ease of connecting to the Internet has made it practical for companies to pair daily and hourly fluctuations in demand with fluctuations in price -- even if the product is a can of soda that sells for just 75 cents.

The potential for other types of innovations is great. Other modifications under discussion at Coca-Cola, Baskin said, include adjusting prices based on demand at a specific machine. "What could you do to boost sales at off-hours?" he asked. "You might be able to lower the price. It might be discounted at a vending machine in a building during the evening or when there's less traffic."

Vending machines have become an increasingly important source of profits for Coca-Cola and its archrival, Pepsico. Over the last three years, the soft-drink giants have watched their earnings erode as they waged a price war in supermarkets. Vending machines have remained largely untouched by the discounting. Now, Coca-Cola aims to tweak what has been a golden goose to extract even more profits.

"There are a number of initiatives under way in Japan, the United States and in other parts of the world where the technology in vending is rapidly improving, not only from a temperature-scanning capability but also to understand when a machine is out of stock," said Andrew Conway, a beverage analyst for Morgan Stanley. "The increase in the rate of technology breakthrough in vending is pretty dramatic."

Bill Hurley, a spokesman for the National Automatic Merchandising Association in

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Washington, added: "You are only limited by your creativity, since electronic components are becoming more and more versatile."

Machines are already in place that can accept credit cards and debit cards for payment. In Australia and in North Carolina, Coke bottlers use machines to relay, via wireless signal or telephone, information about which drinks are selling and at what rates in a particular location. The technology is known as intelligent vending, Baskin said, and the information gathered and relayed by Internet helps salespeople to figure out which drinks will sell best in which locations.

"It all feeds into their strategy of micro-marketing and understanding the local consumer," Conway said. "If you can understand brand preferences by geography, that has implications for other places with similar geography."

Coca-Cola and its bottlers have invested heavily in vending machines, refrigerated display cases, coolers and other equipment to sell their drinks cold. Over the last five years, Coca-Cola Enterprises, Coke's biggest bottler, has spent more than \$1.8 billion on such equipment. In support, Coca-Cola has spent millions more on employees who monitor and service the equipment. In 1998 alone, it spent \$324 million on such support to its biggest bottler.

And last week, Coke's chief marketing officer unveiled the company's plan to pump more sales of its flagship soft drink, Coca-Cola Classic. The program includes a pronounced emphasis on Coke served cold.

Sales of soft drinks from vending machines have risen steadily over the last few years, though most sales still take place in supermarkets. Last year, about 11.9 percent of soft-drink sales worldwide came from vending machines, said John Sicher, the editor of Beverage Digest, an industry newsletter. In the United States, about 1.2 billion cases of soft drinks were sold through vending machines.

In Japan, some vending machines already adjust their prices based on the temperature outside, using wireless modems, said Gad Elmoznino, director of the Trisignal division of Eicon Technology, a Montreal-based modem maker. "They are going to be using more and more communications in these machines to do interactive price setting," he said.

Industry reactions to the heat-sensitive Coke machine ranged from enthusiastic to sanctimonious. "It's another reason to move to Sweden," one beverage industry executive sniffed. "What's next? A machine that X-rays people's pockets to find out how much change they have and raises the price accordingly?"

Bill Pecoriello, a stock analyst with Sanford C. Bernstein, applauded the move to increase profits in the vending-machine business. "This is already the most profitable channel for the beverage companies, so any effort to get higher profits when demand is higher obviously can enhance the profitability of the system further," he said.

He pointed to a possible downside as well. "You don't want to have a price war in this channel, where you have discounting over a holiday weekend, for example," he said. "Once the capability is out there to vary the pricing, you can take the price down."

A Pepsi spokesman said no similar innovation was being tested at the No. 2 soft-drink company. "We believe that machines that raise prices in hot weather exploit consumers who live in warm climates," declared the spokesman, Jeff Brown. "At Pepsi, we are focused on innovations that make it easier for consumers to buy a soft drink, not harder."

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