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## Sheetz puts the gas in gastronomy

By Ken Otterbourg @FortuneMagazine May 6, 2013: 8:43 AM ET



PHOTO: GREG MILLER

On Route 322 in Ephrata, Pa., a new Sheetz location tempts drivers with popcorn chicken and fried pickles, 24 hours a day.

(Fortune)

Behold the convenience store, the place off the highway or just down the road where we unsheathe our lunch from heavy plastic and clutch restroom keys attached to blocks of wood. It is where we shuffle in the morning cold while we gas up the SUV. It is part of our pop culture, from Apu's Quik-E-Mart and the seditious Dante and Randal in *Clerks* to Chevy Chase telling his son in *National Lampoon's Vacation* that he is so hungry he could eat a gas-station sandwich.

And yet change is afoot. To find it, the best place to go is Altoona, Pa., the home of Sheetz, one of the largest and fastest-growing convenience-store operators in the country, with 440 outlets and annual revenues of \$7 billion. The brash and sprawling Sheetz clan is at the leading edge of an effort to remake convenience stores into something tastier and more wholesome, built around prepared food rather than chips, gas, and cigarettes. One indication of the upgrade: Sheetz, the home of the shmuffin and the shmiscuit and the shmagel, was among five winners of the 2012 Golden Chain Award from *Nation's Restaurant News*, the first time a convenience store made the cut.

Nobody's going to mistake a Sheetz for a Jimmy John's, one of the other winners, but the lines are blurring. As it builds out its southern flank, Sheetz is adding drive-throughs, using sriracha sauce in its condiments, and experimenting with seating and layouts aimed at making its stores places to hang out, sort of like Starbucks -- except of course that they're open 24 hours a day and have ranks of gas pumps that light up the night sky, not to mention the occasional condom vending machine in the restrooms.

And there's the challenge for Sheetz and WaWa and QuikTrip and Kwik Trip and all the rest of the close-knit and spelling-challenged industry as it takes on the burger chains and sub shops of America. "We really need to get new food customers, and our problem, our hurdle, is people unwilling to buy food at a place that sells gas," says Travis Sheetz, the company's executive vice president of store operations and one of a dozen Sheetzes involved in the business. "It's always been that way."

The son of a dairyman, Bob Sheetz opened his first convenience store in downtown Altoona in 1952, but the family skill at recognizing opportunity and understanding the subtleties of marketing began a generation earlier, when Bob's father, Gerald, went to a milk convention in Pittsburgh and saw two name tags. One was for Gerry Sheets, which was his name. The other was for a Gerry Sheetz. He took the other guy's. "I like the z," he told his wife, and he legally changed his name.

Altoona's original claim to fame is as the home of Horseshoe Curve, where the railroad nearly bends back on itself in a long and panoramic switchback. In the 1950s the city was a bustling place, with 15,000 employees of the Pennsylvania Railroad working around the clock to repair engines and freight cars. Pennsylvania's blue laws kept supermarkets closed on Sunday, but the

restrictions did not apply to small retailers, creating a tidy loophole for the Sheetz enterprise. As the restrictions on Sunday commerce were loosened in the 1970s, Sheetz started selling gas as a way to make up for the lost business. Even today, Pennsylvania is a thicket of retailing restrictions. Cigarettes can't be discounted below a state minimum, and convenience stores can't sell beer. Sheetz has been fighting restaurants and beer distributors to get the law changed and even deployed a Rube Goldberg maneuver that allows it to sell beer at exactly one store. In the early days the ban kept the national chains away, meaning a little less competition and a little more room to experiment.

By 1984, Bob had 100 stores, and he moved to Florida and turned the CEO job over to his brother Steve. Three other brothers -- Louie, Charlie, and Joe -- were also working at Sheetz, along with Bob's son, Stan. The push into custom-made food came about in 1986 because the stores were open 24 hours a day and employees on the night shift didn't like to work alone. When the company added a second employee, it needed more revenue to offset that expense, and found it in made-to-order sandwiches.

Stan, who would become CEO in 1995, was the architect of the plan, and he held firm during the bumps of the transition. "He saw gas wasn't going to be the main producer," says Bob. "He said, 'We're going into the fast-food business.'"

You can see that change on the shelves, where products that aren't food or aren't for immediate consumption have been reduced to a bare minimum. At one store I visited, there were 51 varieties of potato chips, one kind of mustard, and one type of disposable razor.

The Sheetz biscuit comes to the store frozen. It's not as delectable as the made-from-scratch biscuit rolled out each morning at your local Biscuitville, but when you throw in the gas and the lottery ticket and the candy bar for later, it all works out. It's the value in what Stan Sheetz calls "selling time."

Better food starts with improved logistics. Sheetz runs a distribution center and commercial kitchen and bakery a few miles south of Altoona. (A sister facility is in the works for North Carolina to more efficiently serve the company's Southern expansion.) As the company has grown, it has taken charge of more of its warehousing, giving it control over delivery schedules and also a fleet of trucks and vans that are washed every day and do double duty as rolling billboards. Sheetz does most of its business at lunch. It spent a lot of time chasing dinner before realizing the bigger prize was in America's fourth -- and favorite -- meal: snacks. Hence the popcorn chicken and the fried pickles and the sliderz, with the Sheetz "z," all available anytime of the day or night.

As Sheetz tries to increase its food and beverage business to weekly sales of \$50,000 per store, the equivalent of McDonald's and industry leader Chick-fil-A, it faces a challenging dance. Though it wants to be seen as a restaurant, it pulls in a lot of diners by selling gas, about 65,000 gallons a week per store, more than double the industry average. One secret to that volume is lots of pumps, so drivers don't have to wait. But all those pumps detract from the food vibe the company is trying to create, particularly in new markets where the public still thinks that gasoline and decent food can't coexist. And putting in booths and tables and encouraging millennials to hang out means there's a slower turnover of parking spaces and a hassle for customers wanting to get in and out quickly.

Sheetz's solutions include more parking in bigger lots, now approaching three acres, and moving the pumps to the back, which zoning officials like as well. And to underscore the separation of the fuel from the food, it's phasing out the covered walkway that keeps customers dry when they walk from the pump to the store.

Ample seating is still a rarity at most convenience stores, where the goal is to fill up your tank, put a little dent in your wallet, and then get you back on the road. Despite Sheetz's success, most competitors aren't going to the same extremes, at least not yet. But Jeff Lenard, vice president of industry advocacy at the National Association of Convenience Stores, says a transition is under way. "The industry is pointing toward the day that they are all restaurants that sell gas," he says.

Some of this shift and acceptance is generational. I spoke with LeChelle Rick, a self-described Sheetz freak who lives in eastern West Virginia. Her daughters, ages 11 and 13, have caught the bug, and it's now their fast-food place of choice. "I still think of it as a gas station," says Rick, "but my daughters think of it as a restaurant."

Sheetz started branding and delivering its own gas in its own tankers 20 years ago, after one of its fuel distributors had a spill but Sheetz got the black eye in bad publicity. The company took over making its own doughnuts in 2008, rather than continuing to rely on Krispy Kreme's commissary. It has its own line of bagged nuts, candy, and beef jerky. And it has resisted entreaties from Wall Street for private equity investments, instead relying when necessary on traditional bank financing and some insurance placements.

It's all about maintaining control, which family members say is nearly a genetic trait at the heart of their operations and a big key to their success. "We don't play well with others," says Joe Sheetz, now in charge of finance and store development but set to step in later this year as CEO, replacing his cousin Stan. (Joe's father, known as Big Joe, died in 2006.) Travis is Joe's brother, and

sister Ashley Sheetz runs social media, including the Facebook page and its nearly 900,000 fans. Family members control a little more than 90% of the stock. Employees own the rest. Book value, it's all worth about \$650 million, but probably double that, Joe says, if it were traded on an open market.

There's been substantial churn in the convenience-store business in recent years as midsize operators, many of them family-owned like Sheetz, sold to larger companies. Industry consultant Lesley Saitta at Impact 21 Group says the majority of those deals are driven by succession issues. "It's all about figuring out the third generation. The best operators spend a lot of time in succession planning and understanding those dynamics. Sheetz is really focused on that."

The typical family business is pyramid-shaped, with a small first generation of founders. The Sheetz brothers' model, five wide, is flatter, more a family hedge than a family tree. In addition, the age disparity among the brothers, from 57 to 78, and their offspring, from 18 to 57, allows continuity and a smoothing-over of generation gaps. "It's a real advantage to have large families in the second generation, because it minimizes the focus on a single person and gives you more candidates," says Steve McClure of the Family Business Consulting Group. His firm is advising Sheetz and the family as they put in place more formal governance structures. "Family businesses that sell don't plan," says McClure, "and these guys are planners."

Part of that planning involves keeping the Sheetz family happy, including the majority who don't work for the company but nonetheless look forward to their dividend checks. It also means a more formal communications process through the creation of a family council that will work with the voting trust that controls most of the shares. Unlike previous CEOs, Joe will report to a board of directors, comprising both insiders and outsiders.

One of the people advising Sheetz on this transition is Chet Cadieux, who is the CEO of QuikTrip, another successful player, based in Tulsa. Cadieux wonders, half-seriously, if there is something in the water in Altoona that drives the Sheetzes to be a little different and perhaps ahead of the curve. "They're incredibly creative and not afraid to try new things. As companies get bigger with more to lose, they tend to develop an aversion to innovation at the risk of damaging what they've got."

The Sheetzes wonder about the Altoona difference too. Steve helped fund a center for entrepreneurship at the tiny Penn State branch here, part of an effort to nurture local talent for themselves and the community. Joe says that as the company has grown, recruiting has become easier, because people in the industry want Sheetz on their résumé. And for the potential hires that don't want to move to Altoona, he says, "the people we couldn't get to come here are people that we probably don't want."

I asked a lot of the Sheetzes about Altoona, and they all praise the area's work ethic as being central to their success. But there's more than that. Louie Sheetz, who heads marketing and is the youngest member of the first generation, told me the city also has a bit of a wiseass culture, which at first blush seems a little iffy but nonetheless has also become part of the Sheetz juju. That yin and yang, the no-BS, lunch-pail approach married to something edgier, something snappier, is a hard act to pull off, particularly at a place where sandwiches cost four bucks and gas is virtually a commodity. But it's there, and you can get a glimpse of the Sheetz juggling act in *Pom Wonderful Presents: The Greatest Movie Ever Sold*, Morgan Spurlock's cheeky look at marketing and product placement. The rest of the fast-food business turned Spurlock down, but Sheetz flew Spurlock out to Altoona. In the documentary, after Spurlock makes his pitch, Stan delivers a soliloquy that, if not quite Shakespeare, still gets at the essential truths of what's going on in the movie and by extension the marketplace: "Here's this jerk who's making this horrible marketing movie with the assumption that Americans are idiots. Morgan is an idiot. He thinks all Americans are idiots, and all the people who sponsored this film are idiots -- they're bigger idiots. What does that do to our brand?"

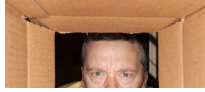
Then, after the rant, it was time for business, because what Spurlock was selling the company was opportunity before a larger audience. Sheetz paid \$100,000 to be part of the movie, which premiered in 2011 at the enormous Jaffa Shrine Center in downtown Altoona. There were special Sheetz beverage cups to promote the movie, and if you were there you could collect all four.

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