

From Good to GREAT

Best-selling author and business professor Jim Collins
shares his views on building great companies that last



OUTLOOK²⁰⁰⁵ LEADERSHIP

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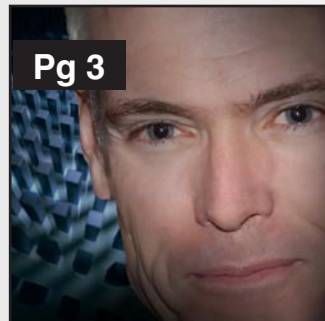
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A look at the conference through our digital photo album

Contents

- 3 | **From Good to Great**
Level 5 Leaders? Hedgehog Concepts? Bestselling author Jim Collins talks business with the best of the best in the c-store industry



- 6 | **Wal-Mart 2010**
It took Wal-Mart 42 years to reach a quarter trillion dollars in sales. Retail Forward's Al Meyers says it will double that figure in the next five.

- 10 | **Swimming with the Sharks**
What would you do if you caught your top-level employees staring out the window in their offices? If you're Harvey MacKay, you give them a pat on the back. The best-selling author and business leader explains why.

- 11 | **2005 Outlook Awards**
Profiles of three chains that have made a difference in three key aspects of the business: Customers, Cleanliness and the Community.

- 15 | **Outlook in Pictures**
From networking to bobsled racing, a look at the Outlook Leadership Conference through the images of our digital photo album.

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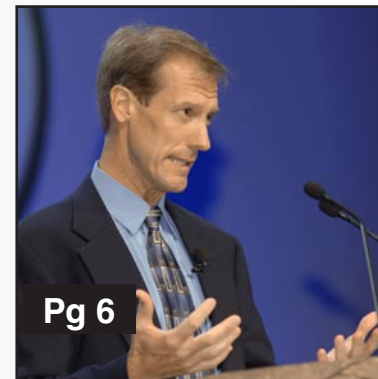
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FEEDBACK

By John Callanan

From Good to GREAT

Level 5 Leaders? Hedgehog Concepts? Bestselling author Jim Collins talks business with the best of the best in the c-store industry.

In conducting research for his *New York Times* bestseller, “Good to Great,” author and professor [Jim Collins](#) and a group of his graduate students at the Stanford University Graduate School of Business spent five years studying the commonalities of companies that over time had gone from average-performing businesses to long-term superior companies in their respective fields.

While the research team found a number of philosophical and operational similarities among these “good-to-great” companies – despite their operating in a broad range of industries – one shared characteristic came as a surprise to those on the

research team. Of the eleven companies deemed to have made the transition from “good” to “great,” none were lead by the type of chief executive one might expect to find at the top of such companies. Those ego-centric, best-seller-writing, speaking-circuit toastmaster types were nowhere to be found. Instead, leaders like [Darwin Smith](#) of [Kimberly-Clark](#), Coleman Mockler of [Gillette](#), and [Charles R. “Cork” Walgreen III](#) of [Walgreen’s](#) – not necessarily a “who’s who” of the local Barnes & Noble business section – were those Collins’ team deemed “Level 5 leaders.”

In “Good to Great,” Collins describes a “Level 5” leader as one who “builds

enduring greatness through a paradoxical blend of personal humility and professional will.”

As part of his presentation at this year’s Outlook Leadership Conference in Salt Lake City, Collins moderated a panel discussion with the leaders of some of the most successful businesses in the convenience store channel. Among the panelists were highly educated, highly successful leaders in the industry – perhaps even a “Level 5” leader or two.

Joining Collins were:

- ⇒ **Terry Carter** - senior vice president and Chief Financial Officer of [QuikTrip Corp.](#)
- ⇒ **There duPont** - President of [Wawa, Inc.](#)
- ⇒ **Steve Sheetz** - chairman of [Sheetz, Inc.](#)
- ⇒ **Mark Schortman** - chief customer officer and vice president, North America Sales for [Coca-Cola Co.](#)

Kicking off the discussion, Carter immediately addressed Collins’ theory of “[Level 5 leadership](#).” “How can companies facilitate that kind of development?” he asked.

“‘Level 5’ is a journey,” Collins said. “One of the questions that kept coming up after the book was whether ‘Level 5’ can be developed; whether someone can develop into a ‘Level 5’ leader – and I believe ‘Level 5’ can indeed be developed. To achieve ‘Level 5,’

you have to be engaged in something you really care about. If you are not passionate about it and care about it beyond yourself, it is hard to achieve ‘Level 5.’”

duPont, a former student of Collins’ at Stanford, touched on the subject of success. “How do you identify and what mechanisms can we put in place to help identify ‘Level 5’ leaders in our organizations?” he asked.

“There are three things I would look for to identify a ‘Level 5’ leader,” Collins said. “The first is results. ‘Level 5’ leaders deliver results. Second is, they practice the ‘window and the mirror.’ When things are going wrong, their natural pattern is to take responsibility. When things are going well, they do as much as they can to point to others and point to factors outside of their control. The third is more subtle, but a true test of ‘Level 5’ leadership is the ability to build something that continues to perform well once the leader is taken away from it.”

“You have to be engaged in something you really care about.”

— Jim Collins



▲ Wawa Inc.'s Terry duPont, a former Collins student at Stanford University



▲ Coca-Cola's Chief Customer Officer Mark Schortman



▲ QuikTrip Senior Vice President and Chief Financial Officer Terry Carter



▲ Sheetz Inc. Chairman Steve Sheetz

Schortman took a different tack in his line of questioning. As a leader in a global organization with a massive team of mid-level managers, Schortman sought Collins' thinking on how to address the role of the mid-level manager as it relates to Collins' "Good to Great" theories.

"What I tell people is, take responsibility for what you have responsibility for and build it into a pocket of greatness," Collins said.

Sheetz, a self-described "fan" of Collins, addressed what he considers to be the most important aspect of his business: the customer. "In reading the book for the second time, it occurred to me you didn't spend much time on the customers of these companies or their focus on the customer," Sheetz said. "Why is that?"

According to Collins, he and his team learned to differentiate between a "circumstance-specific necessity" and a "universal principle."

"In your industry, attention to the customer is a circumstance-specific necessity," Collins said. "While being customer-obsessed may be vitally important in some industries, it may not be vitally important in other industries. The universal principle is that in your industry, you need to be able to identify the circumstance-specific necessities and be absolutely obsessively passionate about them."

But is a passionate obsession with customer focus a universal principle in the c-store industry? Collins put that question to Sheetz, who said he believes a convenience store business might survive, but would not likely become a great company in the industry without such an obsession.

"In the dark ages of Sheetz, which were 1984 to 1988 – a time when it had been questionable as to whether we would even survive – we knew that what we were doing wasn't right. We had lost customer focus as we grew, where as our competitors had not."

Sheetz added that he helps instill such a passion in his employees by setting an example himself. "When we did not have customer focus as a core value, you could see it in what I did every day, which was open a store, open another store and open another store. Today, what I do every day reflects our focus on the customer."

Among the basic premises of Good to Great is the "Hedgehog Concept," derived from the Isaiah Berlin essay "[The Hedgehog and the Fox](#)," wherein Collins describes companies that have gone from "good" to "great" as being like the hedgehog in the essay – simplifying a complex world into a single organizational

idea. These companies, according to Collins, simply set their sights tightly on doing what they could be the best in the world at.

duPont pointed out he believes the industry is competing with multiple retail channels with different "hedgehogs" and, as such, the c-store channel cannot be defined so narrowly.

"A 'hedgehog' is such an entity-specific element," duPont said. "The values that motivate a QuikTrip, a Sheetz or a Coca-Cola are different. I don't think you can apply a single 'hedgehog' to an industry because there are multiple entities within an industry. For us, we are focused on our people, customers and our brand." ■



▲ Video: "Good to Great" and "Built to Last" author Jim Collins shares his thoughts on the importance of people in life and in business.



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Wal-Mart

2010

By John Callanan



It took Wal-Mart 42 years to reach a quarter trillion dollars in sales. Retail Forward's Al Meyers says the chain will double that figure in the next five.

“I’m going to make you queasy with this subject,” Al Meyers began – an interesting way to capture the attention of several hundred Outlook Leadership Conference attendees, to say the least.

But the senior vice president of research firm [Retail Forward Inc.](#) was indeed providing an honest disclaimer, as it appeared more than several retailers attending his presentation were left shaking their heads and, perhaps, a bit pale in the face after Meyer finished detailing his firm’s projections on what the world’s largest retailer – [Wal-Mart Stores, Inc.](#) – will be up to during the next five years.

In his presentation, titled “[Wal-Mart 2010](#),” Meyers drew upon his firm’s study of the retailer’s past and present to make some bold – and somewhat frightening – predictions regarding its growth over the next five years. In leading up to the future, Meyers laid out some of the staggering statistics surrounding Wal-Mart today. In the past five years, the company has doubled its annual sales, from \$150 billion to \$300 billion. Five years ago, the chain operated 700 of its Supercenter units; today that number stands at 1,700. Five years ago, the chain held a 6-percent share of the U.S. non-auto, non-gasoline retail market. That figure now stands at 8 percent.

“How are they going to grow next?” Meyers asked. “Well, not intergalactically,” though it appeared evident some in the room wouldn’t mind the retailer taking its aggressive growth plans to another planet.

According to Meyers, Wal-Mart is poised for significant growth over the next five years – and to the chagrin of conference attendees concerned with its impact on their markets – this growth will not be extraterrestrial – though it will be, to a significant extent, international.

“I know many of you are holding out hope Wal-Mart will crumble under its own weight and go the way of W.T. Grant or Caldor, but we think that by 2010 they will indeed get stronger,” Meyers said, adding that his firm’s research points to the legacy of learning left behind by Wal-Mart founder Sam Walton.

“I know many of you are holding out hope Wal-Mart will crumble under its own weight.”

**—Al Meyers
Retail Forward**

“Back in the 1980s, I remember attending the International Mass Retailing Association conventions and going to the early 7 a.m. breakfast meetings and seeing this man taking copious notes, writing down everything the speaker was saying,” Meyers said. “It was [Sam Walton](#). They learned from everyone they could learn from. Constant pressure to get better is one of the hallmarks of a great company.”

According to Retail Forward’s projections, Wal-Mart will be a half-trillion-dollar company by 2010. “It took them 42 years to get to a quarter trillion and they will double that within the next five,” Meyers said. “If you bought 100 shares of Wal-Mart stock at its IPO in the 1970s, it would have cost you about \$1,600. Those same 100 shares today would be worth \$12 million, and that does not take into account the dividend reinvestment.”



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◀ Retail Forward's Al Meyers expects Wal-Mart to acquire a convenience chain and possibly a dollar chain.

With regard to store count, Wal-Mart's growth has been well documented, with its Supercenter format establishing the chain as the nation's largest grocery retailer. According to Retail Forward's projections, the chain will operate 3,100 of the large format Supercenters by 2010.

"The Supercenter is a diabolical concept," Meyers said. "They are selling food at cost to drive traffic and make it up on the general merchandise side of a 180,000-square-foot store. And two-thirds of Wal-Mart's Supercenters are in only 15 states, so they have plenty of runway left for this concept. They've even developed a smaller version they can take into urban locations."

But Meyers was quick to add the Supercenter's ability to drive the company's growth is limited. Wal-Mart sees the Baby Boomer generation aging and has mobilized to develop a format that is better suited for fill-in grocery shopping.

"With the amount of time it can take for an older person to drive to Wal-Mart, park the car and get into the store, if they are buying a container of milk, their picture could be on the carton by the time they

return home," Meyers quipped, noting the aging Baby Boomer population will be a key driver of Wal-Mart's Neighborhood Market concept – of which it currently operates 85 units – as well as the company's near certain foray into the c-store business.

"Wal-Mart has been expanding its gasoline operation at an alarming rate," Meyers said. "This is a \$400 billion channel of distribution and we think that with Wal-Mart's voracious appetite, it's only a matter of time before they max out all of the gasoline opportunities they have in existing sites. They'll add convenience stores to those sites and they will probably make an acquisition or two and fully get into the convenience store business."

In a similar vein, Retail Forward is also projecting Wal-Mart will continue to expand the number of pharmacy counters it operates and will eventually enter the stand-alone pharmacy business. The company is already the largest pharmacy chain in the country, and it's expected the chain will another 1,000 pharmacy counters by 2010. In addition, the chain already operates three stand-alone pharmacies near its Bentonville, Ark. headquarters.

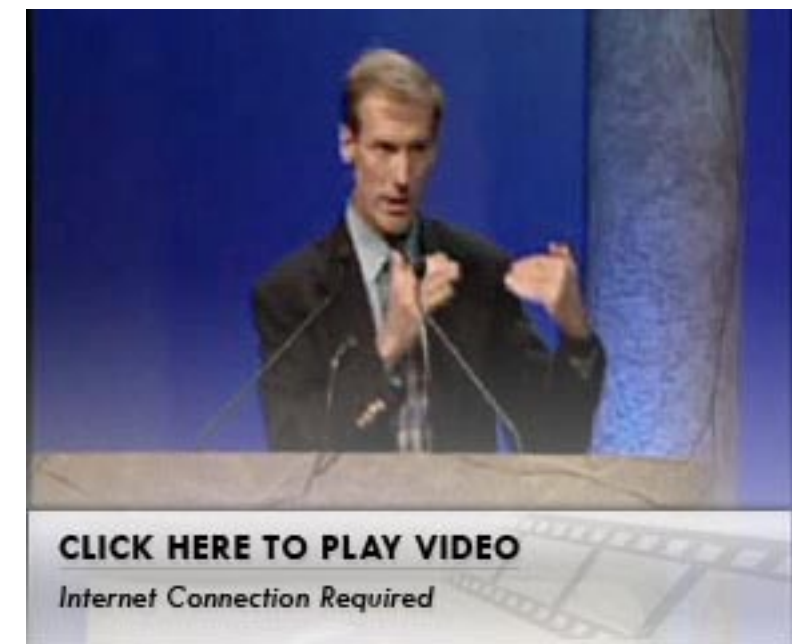
"One third of American shoppers regard Wal-Mart as their primary source of health-care products and they are not even really in the freestanding drug store business," Meyers said. "It's only a matter of time before they move in that direction or acquire a drug chain."

An even faster-growing channel of trade that has caught Wal-Mart's eye is the Dollar channel. Meyers agreed with what to date has been moving through the rumor mill – that it will not be long before Wal-Mart acquires a dollar store chain to challenge channel leaders [Dollar General](#) and [Family Dollar](#) for even more of the value consumer market.

"It's a concept that really takes them back to their retailing roots," Meyers said, "and there is lots of cheap land out there where they can get into communities and really leverage all of their supply-chain capabilities."

And it's really the company's supply-chain standards that have enabled it to grow so rapidly in recent years – and why Meyers is so bullish on the company's future. According to Retail Forward, 10 percent of all exports from China now pass through Wal-Mart's distribution system, and for some U.S. manufacturers, 30 percent or more of their volume is earmarked for Wal-Mart.

"Wal-Mart has invested heavily in labor-saving technology, which has allowed them to sell more product at a lower cost, which allowed them to invest even further in labor-saving technology and the loop just continues," Meyers said. ■



▲ **Video:** Retail Forward's Al Meyers offers a look at where Wal-Mart has come from and how his firm is projecting its growth over the next five years.

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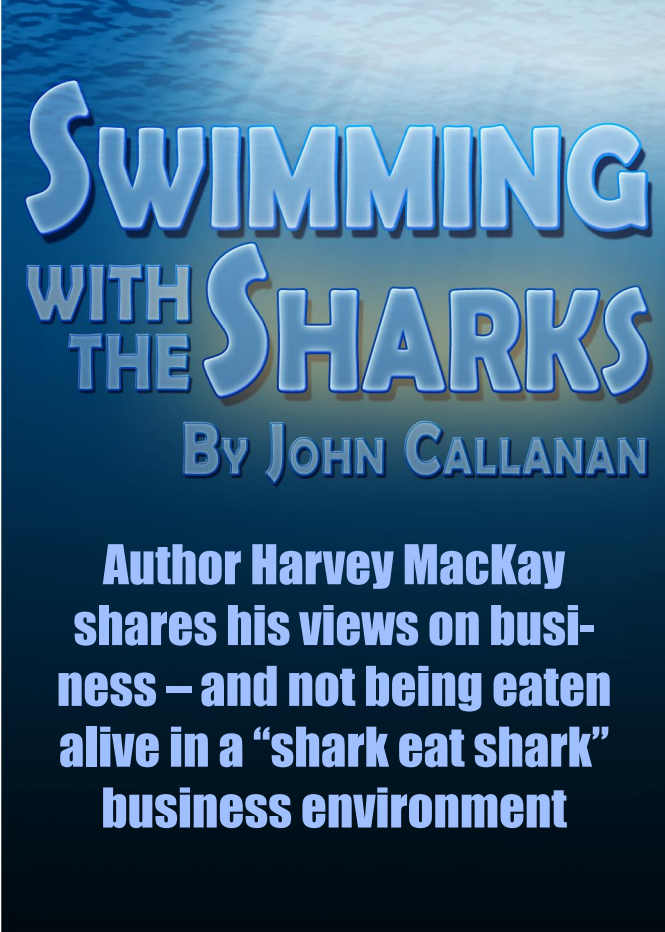


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MacKay Envelope Corp. is the largest supplier of envelopes in the world, and its Chairman and Chief Executive Officer, [Harvey MacKay](#), can very likely tell you the birth date of every one of its customers.

The veteran businessman, best-selling author and syndicated columnist presented Outlook Leadership attendees with his thoughts and secrets to running a successful business.

According to MacKay, who purchased his company 45 years ago at age 26, the business world is rapidly changing; demanding more from those who expect to succeed in it. “We have

seen more changes in business during the last five years than we have in the previous 15 or 20,” MacKay said. “The experts are predicting there will be 375 new companies on the S&P 500 list by the year 2020. These companies have not been invented yet; nobody knows who they are or where they coming from.”

MacKay said the impacts of this rapid pace of change in business and society at large has direct impact on retailers – certainly in the convenience store industry. “On the flight here, I was trying to sum up where you all stand in the midst of all this change and I think this sums it up best: ‘He or she who rides a tiger cannot dismount.’”

In discussing his approach to what he terms a “shark eat shark” business environment, MacKay shared several of the concepts relayed in his writing.

Some of the most productive people spend valuable time looking out the window: “If you catch one of your key people looking out the window – if you catch yourself looking out the window – congratulate yourself. You are doing the company more good than if you were doing many other things. You are thinking. Don’t stifle thinking; encourage it.”

“You need creativity to succeed in business,” MacKay continued. “[Helen Keller](#) was making a speech and a

mean-spirited member of the audience asked her if losing one’s sight was the worst thing that could happen to a person. ‘No,’ she said. ‘Losing your *vision* is.’ Creativity and vision are required for success.”

But according to MacKay, too many businesses exercise what he terms “creativity killers” – approaches to decision making that hinder creativity and calculated risk taking.

Some examples of the top creativity-killing statements made in business on a daily basis:

- “It’s not in the budget.”
- “The boss won’t go for it.”
- “Great idea – let’s form a committee to tackle it.”
- “That’s against our policy”
- “That’s the kind of idea that cost your predecessor their job.”
- “Let’s let the competition try it first and see what happens.”
- “If we do it, they’ll wonder why we didn’t do it sooner.”

And his favorite:

- “Great idea; let’s turn it over to legal.”

In order to foster creativity in the selling process, MacKay Envelope employees now complete a 66-question survey on all of their customers, capturing such information as their



▲ Vision and creativity are two of the most important traits of a successful business leader, Harvey MacKay told Outlook Leadership attendees.

date of birth, family information, likes, dislikes, tastes, awards won and other information. “You can never know too much about your customers,” he said. ■



▲ **Video: Businessman and author Harvey MacKay tells why many top executives can spend some of their most productive time looking out the window.**

Outlook Awards

2005

Leadership Conference

Helping the Kids

Rutter's Farm Stores commits to improving children's lives

by Dan Blunk

For a mid-sized company, York, Pa.-based [Rutter's Farm Stores](#) makes a big splash among the charitable causes in its markets.

In addition to making nearly weekly donations of products from its convenience stores and its dairy operation, the 50-store company digs deep and contributes about \$200,000 a year to various charities. Generally, the chain's charitable efforts are focused on helping children live better lives.

For this privately owned enterprise that was founded by a family who has been farming and doing business in York since the mid-1700s, community involvement is part of its DNA.

"It's just part of the culture we were brought up in," says Todd Rutter, president of Rutter's Dairy, another of the Rutter family businesses. "We don't know a way to do business without being visible in the community through donations and participation in charity events."

Though one will not find Rutter's among the 100 largest convenience chains, the company would likely be found among the most charitable and community-minded. However, the company did not always have a clear vision for its charitable giving. In 2003, Scott Hartman, the third-generation president of Rutter's, came to realize that while the company was making very generous donations, the effort was not very targeted. The company was distributing more than \$100,000 a year to a wide range of causes. But there was no overall plan to make sure the company's efforts were reaping the best results. "It used to be first-come, first-served," Hartman says.

Executives organized a series of focus groups asking customers about how they viewed Rutter's as a corporate citizen. While most agreed that Rutter's was doing great things to help the community, customers had difficulty giving concrete examples. As a result, the company launched [Rutter's Children's Charities](#) to handle

the donation requests and focus the company's giving. Deciding to help children was an easy decision, Hartman says: "Now we have more focus so we can really make a difference in the lives of children in our community."

Rutter's makes financial contributions in the neighborhood of \$200,000 each year – a generous amount for a company its size. The company focuses its giving on helping children learn skills and live better lives. For example, the company has been a longtime contributor to the [Make-A-Wish Foundation](#), donating more than \$53,000 in 2004.

Rutter's was able to significantly add to its donations in 2004 when, by a stroke of luck, a customer purchased the winning ticket in the Powerball lottery. The ticket was worth \$110 million – at the time the



Community Involvement

◀ Jeff Leedy (left), vice president of marketing/buyer, and Todd Rutter, executive vice president, accept the Outlook Award on behalf of Rutter's.

second-largest cash prize in the history of the Pennsylvania Lottery.

Rutter's received a commission of \$400,000 for selling the ticket. It shared \$35,000 with employees of the winning store and donated \$65,000 to various children's charities in its market areas.

"The best thing to do is to keep putting money toward helping the children and they'll improve everybody's lives as they grow up," Hartman said. ■



▲ **Video: How Rutter's Farms developed a focused and highly successful charitable donations program within its communities.**



and sales

The United States Postal Service's Contract Postal Unit (CPU) program offers an opportunity to partner with the world's largest delivery service.



A CPU is a Post Office that's located inside a retail establishment and operated by the retailer's employees.

The CPU offers the opportunity to increase traffic and sales.

For more information on this program contact Dennis Kelly at Dkelly4@usps.gov.



Outlook Awards

2005

Leadership Conference

Service Contract

Huck's declares passion for performance with Total Customer Focus

by Angel Abcede

You can't walk into a Huck's Food and Fuel convenience store without knowing that customers come first. Messages touting its "Total Customer Focus" program are everywhere, from Lance Armstrong-style wrist bracelets to lapel pins, posters to mouse pads, employee smiles to door exit signs. Even the clock says it's time for excellent service.

That's why the Carmi, Ill.-based retailer beat out eight other chains to win this year's Outlook Award for Customer Service. "Waiting in line stinks!" and "We make it right, guaranteed" are slogans backed by ongoing training programs, moral-boosting incentives and store-level empowerment.

Service became a renewed priority for Huck's and its parent company, Martin & Bayley Inc., in January 2004. That's when executives at the 135-store chain put a magnifying glass to the job of pleasing customers. By April of that year, they had assembled best

practices, ideas from their share group and direct input from employees to create their Total Customer Focus (or TCF) program.

"We asked ourselves, hey, are we willing to lose a customer over a gallon of milk or a car wash?" says Todd Jenney, vice president of operations for Huck's. "Some of the things people lose customers over are ridiculous."

Jenney says that shaping the store environment even went to the level of changing door signs that read "Enter" and "Exit" to ones that read "Welcome" and "Thank You." In addition, the help desk the company implemented for equipment maintenance also doubles as a call-in line for consumers. People can both call and e-mail Huck's and know that someone listens to or reads their comments.

"With so many things visible to the customer, it gives additional incentive to our associates to provide best-in-class customer service," Jenney says,

"because we're telling the customer we're going to, and we've got to deliver or we'll hear about it."

While customers are definitely at the forefront of the program, Huck's TCF mindset starts with employees. As one of their training slogans puts it, "Happy associates make customers happy." So with the TCF program, employees win when they perform well. If the store earns perfect marks on a routine inspection, not only does the sales associate on duty receive a free uniform (which they would normally have to pay for) and the chance of winning a trip to Cancun, but the rest of the store employees also receive a coupon worth \$5 toward in-store purchases.

The TCF effort has had tangible results: Scores from in-house mystery shopping are up. Elwood says percentages



Customer Service

◀ Todd Jenney, vice president of operations, and Audrey Elwood, vice president of human resources, accept the Outlook Award on behalf of Huck's.

within internal customer service studies increased from a low in one month of 85.12% to the current 92.74%. "You can't improve if you don't measure," Fulkerson says.

Looking ahead, Huck's intends to build on what it started, maintaining a high level of customer service through ongoing employee training and rewards. For this Illinois retailer, providing outstanding customer service is no mystery. It's all about staying focused. ■



▲ **Video: A look at how Martin & Bayley Inc. developed its Total Customer Focus program to improve customer service.**

'High Expectations'

Concentration on customer drives cleanliness, maintenance at Casey's

by Steve Holtz

A high level of expectation — that's been the way of doing business at [Casey's General Stores](#) for four decades. And it shows in everything Casey's does, from foodservice to customer service and, perhaps most importantly, store operations.

"We can go back 35 years ago, when we had only one store, and our policies then were keep clean, well-organized stores and good employees, keep oil off the drive, keep your pumps clean, keep the restrooms clean," says CEO Ron Lamb. "That's what the public looks for."

A recent mystery-shop study commissioned by CSP and conducted by Ritter & Associates showed Casey's stores exceeded the 100% mark in store cleanliness, gas-pump operations, availability of supplies and other operations-related criteria. That's why the company is CSP's 2005 Outlook Award winner for Operational Excellence.

How do they do it? At this point, it's very much a matter of fact, according to Terry Handley, senior vice president of operations for the 1,400-store chain based in Ankeny, Iowa. That high level of expectation has become standard operating procedure, says Handley.

"We have a tremendous number of people in the upper management field who have grown up with this company, so it's ingrained in all of us as far as what our processes and what our expectations are," says Handley.

For new store managers, mastering those expectations begins with a 30- to 45-day training period with a supervisor. "We have what I think is a strong training process," says Handley. "We take [those expectations] and we pass them on to all those folks, not only philosophically, but through the training process."

Once on the job, all employees have resources to help them complete their jobs with confidence. Complete lists of

assignments to be done during each shift ensure nothing gets overlooked. On those lists, operational assignments such as cleaning the restroom and stocking pump-island supplies get as much attention as stocking the cooler or checking the syrup levels at the fountain.

"And part of that is the cleanliness of the operations. It's something that we can't forget about. We talk about it and reinforce it as often as possible," says Handley. "We reinforce that philosophy every time we get together with folks that this is who we are, this is what we stand for with customer service issues and how important they are."

Lamb says Casey's doesn't conduct a formal mystery shopping program of its own, but insists the tenets behind such programs are part of the



Operational Excellence

◀ Bill Walljasper, chief financial officer, accepts the Outlook Award on behalf of Casey's General Stores.

everyday expectations at Casey's General Stores.

"In a way, we do have mystery shoppers," he says. "It's the whole company. We have 14,000 employees and we encourage them, as they are passing by the stores, to go in, and if they have any comments, they can let us know. We also benefit by the fact that in small towns there is a loyalty that once they're working for Casey's, they're going to stay with Casey's." ■



▲ **Video:** How Casey's General Stores develops its employees to deliver industry-standard customer service without the use of formal mystery shoppers.

Outlook 2005

in pictures

From invaluable educational sessions with the likes of best-selling authors Jim Collins and Harvey MacKay, to pointed presentations on such business challenges as the growth of Wal-Mart, Outlook Leadership attendees had their suitcases full of take-home information after a packed three-day agenda. And to remain sound in body as well as mind, attendees spent a day at Olympic Park, testing their athletic mettle on the Olympic bobsled track and other challenges.

Using the navigation buttons at right, you can browse through our virtual photo album of photos of the event and its attendees.



Photo 1 of 18

Standing Room Only: The mock c-store was a beehive of activity between presentations at this year's Outlook Leadership Conference

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