

Mystic Monk Coffee

Assignment Questions

1. Has Father Daniel Mary established a future direction for the Carmelite Monks of Wyoming? What is his vision for the monastery? What is his vision for Mystic Monk Coffee? What is the mission of the Carmelite Monks of Wyoming?
2. Does it appear that Father Daniel Mary has set definite objectives and performance targets for achieving his vision?
3. What is Father Prior's strategy for achieving his vision? What competitive advantage might Mystic Monk Coffee's strategy produce?
4. Is Mystic Monk Coffee's strategy a money-maker? What is MMC's business model? What is your assessment of Mystic Monk Coffee's customer value proposition? its profit formula? its resources that enable it to create and deliver value to customers?
5. Does the strategy qualify as a winning strategy? Why or why not?
6. What recommendations would you make to Father Daniel Mary in terms of crafting and executing strategy for the monastery's coffee operations? Are changes needed in its long-term direction? its objectives? its strategy? its approach to strategy execution? Explain.

CASE 01

Mystic Monk Coffee



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As Father Daniel Mary, the prior of the Carmelite Order of monks in Clark, Wyoming, walked to chapel to preside over Mass, he noticed the sun glistening across the four-inch snowfall from the previous evening. Snow in June was not unheard of in Wyoming, but the late snowfall and the bright glow of the rising sun made him consider the opposing forces accompanying change and how he might best prepare his monastery to achieve his vision of creating a new Mount Carmel in the Rocky Mountains. His vision of transforming the small brotherhood of 13 monks living in a small home used as makeshift rectory into a 500-acre monastery that would include accommodations for 30 monks, a Gothic church, a convent for Carmelite nuns, a retreat center for lay visitors, and a hermitage presented a formidable challenge. However, as a former high school football player, boxer, bull rider, and man of great faith, Father Prior Daniel Mary was unaccustomed to shrinking from a challenge.

Father Prior had identified a nearby ranch for sale that met the requirements of his vision perfectly, but its current listing price of \$8.9 million presented a financial obstacle to creating a place of prayer, worship, and solitude in the Rockies. The Carmelites had received a \$250,000 donation that could be used toward the purchase, and the monastery had earned nearly \$75,000 during the first year of its Mystic Monk coffee-roasting operations, but more money would be needed. The coffee roaster used to produce packaged coffee sold to Catholic consumers at the Mystic Monk Coffee website was reaching its capacity, but a larger roaster could be purchased for \$35,000. Also, local Cody, Wyoming, business owners had begun a foundation for those

wishing to donate to the monks' cause. Father Prior Daniel Mary did not have a great deal of experience in business matters but considered to what extent the monastery could rely on its Mystic Monk Coffee operations to fund the purchase of the ranch. If Mystic Monk Coffee was capable of making the vision a reality, what were the next steps in turning the coffee into land?

THE CARMELITE MONKS OF WYOMING

Carmelites are a religious order of the Catholic Church that was formed by men who traveled to the Holy Land as pilgrims and crusaders and had chosen to remain near Jerusalem to seek God. The men established their hermitage at Mount Carmel because of its beauty, seclusion, and biblical importance as the site where Elijah stood against King Ahab and the false prophets of Jezebel to prove Jehovah to be the one true God. The Carmelites led a life of solitude, silence, and prayer at Mount Carmel before eventually returning to Europe and becoming a recognized order of the Catholic Church. The size of the Carmelite Order varied widely throughout the centuries with its peak in the 1600s and stood at approximately 2,200 friars living on all inhabited continents at the beginning of the 21st century.

The Wyoming Carmelite monastery was founded by Father Daniel Mary, who lived as a Carmelite hermit in Minnesota before moving to Clark, Wyoming, to establish the new monastery. The Wyoming Carmelites were a cloistered order and were allowed

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to leave the monastery only by permission of the bishop for medical needs or the death of a family member. The Wyoming monastery's abbey bore little resemblance to the great stone cathedrals and monasteries of Europe and was confined to a rectory that had once been a four-bedroom ranch-style home and an adjoining 42 acres of land that had been donated to the monastery.

There were 13 monks dedicated to a life of prayer and worship in the Wyoming Carmelite monastery. Since the founding of the monastery six years ago, there had been more than 500 inquiries from young men considering becoming a Wyoming Carmelite. Father Prior Daniel Mary wished to eventually have 30 monks who would join the brotherhood at ages 19 to 30 and live out their lives in the monastery. However, the selection criteria for acceptance into the monastery were rigorous, with the monks making certain that applicants understood the reality of the vows of obedience, chastity, and poverty and the sacrifices associated with living a cloistered religious life.

The Daily Activities of a Carmelite Monk

The Carmelite monks' day began at 4:10 a.m., when they arose and went to chapel for worship wearing traditional brown habits and handmade sandals. At about 6:00 a.m., the monks rested and contemplated in silence for one hour before Father Prior began morning Mass. After Mass, the monks went about their manual labors. In performing their labors, each brother had a special set of skills that enabled the monastery to independently maintain its operations. Brother Joseph Marie was an excellent mechanic, Brother Paul was a carpenter, Brother Peter Joseph (Brother Cook) worked in the kitchen, and five-foot, four-inch Brother Simon Mary (Little Monk) was the secretary to Father Daniel Mary. Brother Elias, affectionately known as Brother Java, was Mystic Monk Coffee's master roaster, although he was not a coffee drinker.

Each monk worked up to six hours per day; however, the monks' primary focus was spiritual, with eight hours of each day spent in prayer. At 11:40 a.m., the monks stopped work and went to Chapel. Afterward they had lunch, cleaned the dishes, and went back to work. At 3:00 p.m., the hour that Jesus was believed to have died on the cross, work stopped

again for prayer and worship. The monks then returned to work until the bell was rung for Vespers (evening prayer). After Vespers, the monks had an hour of silent contemplation, an evening meal, and more prayers before bedtime.

The New Mount Carmel

Soon after arriving in Wyoming, Father Daniel Mary had formed the vision of acquiring a large parcel of land—a new Mount Carmel—and building a monastery with accommodations for 30 monks, a retreat center for lay visitors, a Gothic church, a convent for Carmelite nuns, and a hermitage. In a letter to supporters posted on the monastery's website, Father Daniel Mary succinctly stated his vision: "We beg your prayers, your friendship and your support that this vision, our vision may come to be that Mount Carmel may be refounded in Wyoming's Rockies for the glory of God."

The brothers located a 496-acre ranch for sale that would satisfy all of the requirements to create a new Mount Carmel. The Irma Lake Ranch was located about 21 miles outside Cody, Wyoming, and included a remodeled 17,800-square-foot residence, a 1,700-square-foot caretaker house, a 2,950-square-foot guesthouse, a hunting cabin, a dairy and horse barn, and forested land. The ranch was at the end of a seven-mile-long private gravel road and was bordered on one side by the private Hoodoo Ranch (100,000 acres) and on the other by the Shoshone National Park (2.4 million acres). Although the asking price was \$8.9 million, the monks believed they would be able to acquire the property through donations and the profits generated by the monastery's Mystic Monk Coffee operations. The \$250,000 donation they had received from an individual wishing to support the Carmelites could be applied toward whatever purpose the monks chose. Additionally, a group of Cody business owners had formed the New Mount Carmel Foundation to help the monks raise funds.

OVERVIEW OF THE COFFEE INDUSTRY

About 150 million consumers in the United States drank coffee, with 89 percent of U.S. coffee drinkers brewing their own coffee at home rather than purchasing ready-to-drink coffee at coffee shops

and restaurants such as Starbucks, Dunkin' Donuts, or McDonald's. Packaged coffee for home brewing was easy to find in any grocery store and typically carried a retail price of \$4 to \$6 for a 12-ounce package. About 30 million coffee drinkers in the United States preferred premium-quality specialty coffees that sold for \$7 to \$10 per 12-ounce package. Specialty coffees were made from high-quality Arabica beans instead of the mix of low-quality Arabica beans and bitter, less flavorful Robusta beans that makers of value brands used. The wholesale price of Robusta coffee beans averaged \$1.15 per pound, while mild Columbian Arabica wholesale prices averaged \$1.43 per pound.

Prior to the 1990s, the market for premium-quality specialty coffees barely existed in the United States, but Howard Schultz's vision for Starbucks of bringing the Italian espresso bar experience to America helped specialty coffees become a large and thriving segment of the industry. The company's pursuit of its mission, "To inspire and nurture the human spirit—one person, one cup, and one neighborhood at a time," had allowed Starbucks to become an iconic brand in most parts of the world. The company's success had given rise to a number of competing specialty coffee shops and premium brands of packaged specialty coffee, including Seattle's Best, Millstone, Green Mountain Coffee Roasters, and First Colony Coffee and Tea. Some producers such as First Colony had difficulty gaining shelf space in supermarkets and concentrated on private-label roasting and packaging for fine department stores and other retailers wishing to have a proprietary brand of coffee.

Specialty coffees sold under premium brands might have been made from shade-grown or organically grown coffee beans, or have been purchased from a grower belonging to a World Fair Trade Organization (WFTO) cooperative. WFTO cooperative growers were paid above-market prices to better support the cost of operating their farms—for example, WFTO-certified organic wholesale prices averaged \$1.55 per pound. Many consumers who purchased specialty coffees were willing to pay a higher price for organic, shade-grown, or fair trade coffee because of their personal health or social concerns—organic coffees were grown without the use of synthetic fertilizers or pesticides, shade-grown coffee plants were allowed to grow beneath the canopies of larger indigenous trees, and fair trade pricing made

it easier for farmers in developing countries to pay workers a living wage. The specialty coffee segment of the retail coffee industry had grown dramatically in the United States, with retail sales increasing from \$8.3 billion to \$13.5 billion during the last seven years. The retail sales of organic coffee accounted for about \$1 billion of industry sales and had grown at an annual rate of 32 percent for each of the last seven years.

MYSTIC MONK COFFEE

Mystic Monk Coffee was produced using high-quality fair trade Arabica and fair trade/organic Arabica beans. The monks produced whole-bean and ground caffeinated and decaffeinated varieties in dark, medium, and light roasts and in different flavors. The most popular Mystic Monk flavors were Mystical Chants of Carmel, Cowboy Blend, Royal Rum Pecan, and Mystic Monk Blend. With the exception of sample bags, which carried a retail price of \$2.99, all varieties of Mystic Monk Coffee were sold via the monastery's website (www.mysticmonkcoffee.com) in 12-ounce bags at a price of \$9.95. All purchases from the website were delivered by United Parcel Service (UPS) or the U.S. Postal Service. Frequent customers were given the option of joining a "coffee club," which offered monthly delivery of one to six bags of preselected coffee. Purchases of three or more bags qualified for free shipping. The Mystic Monk Coffee website also featured T-shirts, gift cards, CDs featuring the monastery's Gregorian chants, and coffee mugs.

Mystic Monk Coffee's target market was the segment of the U.S. Catholic population who drank coffee and wished to support the monastery's mission. More than 69 million Americans were members of the Catholic Church—making it four times larger than the second-largest Christian denomination in the United States. An appeal to Catholics to "use their Catholic coffee dollar for Christ and his Catholic church" was published on the Mystic Monk Coffee website.

Mystic Monk Coffee-Roasting Operations

After the morning religious services and breakfast, Brother Java roasted the green coffee beans delivered each week from a coffee broker in Seattle,

Washington. The monks paid the Seattle broker the prevailing wholesale price per pound, which fluctuated daily with global supply and demand. The capacity of Mystic Monk Coffee's roaster limited production to 540 pounds per day; production was also limited by time devoted to prayer, silent meditation, and worship. Demand for Mystic Monk Coffee had not yet exceeded the roaster's capacity, but the monastery planned to purchase a larger, 130-pound-per-hour roaster when demand further approached the current roaster's capacity. The monks had received a quote of \$35,000 for the new larger roaster.

Marketing and Website Operations

Mystic Monk Coffee was promoted primarily by word of mouth among loyal customers in Catholic parishes across the United States. The majority of Mystic Monk's sales were made through its website, but on occasion telephone orders were placed with the monks' secretary, who worked outside the cloistered part of the monastery. Mystic Monk also offered secular website operators commissions on its sales through its Mystic Monk Coffee Affiliate Program, which placed banner ads and text ads on participating websites. Affiliate sites earned an 18 percent commission on sales made to customers who were directed to the Mystic Monk site from their site. The affiliate program's Share A Sale participation level allowed affiliates to refer new affiliates to Mystic Monk and earn 56 percent of the new affiliate's commission. The monks had also just recently expanded Mystic Monk's business model to include wholesale sales to churches and local coffee shops.

Mystic Monk's Financial Performance

At the conclusion of Mystic Monk Coffee's first year in operation, its sales of coffee and coffee accessories averaged about \$56,500 per month. Its cost of sales averaged about 30 percent of revenues, inbound shipping costs accounted for 19 percent of revenues, and broker fees were 3 percent of revenues—for a total cost of goods sold of 52 percent. Operating expenses such as utilities, supplies, telephone, and website maintenance averaged 37 percent of revenues. Thus, Mystic Monk's net profit margin averaged 11 percent of revenues.

REALIZING THE VISION

During a welcome period of solitude before his evening meal, Father Prior Daniel Mary again contemplated the purchase of the Irma Lake Ranch. He realized that his vision of purchasing the ranch would require careful planning and execution. For the Wyoming Carmelites, coffee sales were a means of support from the outside world that might provide the financial resources to purchase the land. Father Prior understood that the cloistered monastic environment offered unique challenges to operating a business enterprise, but it also provided opportunities that were not available to secular businesses. He resolved to develop an execution plan that would enable Mystic Monk Coffee to minimize the effect of its cloistered monastic constraints, maximize the potential of monastic opportunities, and realize his vision of buying the Irma Lake Ranch.