

Mystic Monk Coffee

OVERVIEW

This 4-page case requires that students consider the future direction of a monastery located in Clark, Wyoming and evaluate the vision, strategy, and business model of the fledgling Mystic Monk coffee business. As the case unfolds, students will learn of Father Daniel Mary's vision to build a new Mount Carmel in the Rocky Mountains and transform 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. Father Daniel Mary had identified a nearby ranch for sale that met the requirements of his vision perfectly, but its listing price of \$8.9 million presented a financial obstacle to creating a place of prayer, worship, and solitude in the Rockies. Father Daniel Mary hoped to fund the purchase of the ranch through charitable contributions to the monastery and through the profits of its Mystic Monk coffee business, which had earned nearly \$75,000 during its first year of operation.

SUGGESTIONS FOR USING THE CASE

This case was written as a leadoff case and was carefully crafted by the case author to require students to draw upon most all of the concepts discussed in Chapters 1 and 2 to sufficiently prepare for a class discussion of the case. The case involves issues relating to mission, vision, objectives, strategy, business models, and decisive strategic leadership; the need for an action plan is obvious—these are the very things one looks for in a good leadoff case. And the nature of the case virtually guarantees the stimulating kind of class discussion one needs to get the course off on the right foot.

We think Mystic Monk Coffee (MMC) is an excellent leadoff case for the course (another good choice is Robin Hood—which also requires that students draw upon the material covered in Chapters 1 and 2). The unusual topic of the business ventures of cloistered monks, student familiarity with the coffee industry, and the very close connection between the case and the material in Chapters 1 and 2 make this an especially good leadoff case. You may want to consider covering Chapter 1 in your first day's lecture, Chapter 2 on your second day's lecture, and then assigning Mystic Monk Coffee for class discussion on Day 3.

We suggest use of a teaching plan that focuses on Father Daniel Mary's strategic vision for the monastery and its coffee operations and Mystic Monk Coffee's strategy and business model. Of course, there is the opportunity for students to make recommendations regarding the strategic issues confronting the monastery and its coffee venture.

Videos for Use with the MMC Case. There is an accompanying 3:47-minute video available at YouTube that you might want to show the class (or have students watch on their own). The video gives a short introduction to the Carmelite Order and might help students understand the belief and priorities of a monk. There is also a 4:16-minute video at YouTube that discussed the relationship between spiritual capital, virtue, and business that you might consider having students watch prior to discussing the case.

The assignment questions and teaching outline presented in upcoming sections of this TN reflect our thinking about how to conduct the class discussion of the Mystic Monk Coffee case.

It is really very difficult to have an insightful and constructive class discussion of the Mystic Monk Coffee case unless students have not only read the case but also conscientiously worked their way through a set of well-conceived study questions before they come to class. In our classes, we expect students to bring their notes to the study questions to use/refer to in responding to the questions that we pose. Students often find having a set of study questions is useful in helping them prepare oral team presentations and written case assignments—in addition to whatever directive questions you supply for these assignments.

To facilitate your use of study questions and making them available to students, we have posted a file of the Assignment Questions contained in this teaching note for the Mystic Monk Coffee case on the student section of the publisher's Online Learning Center for the 19th edition (www.mhhe.com/thompson). (We should also point out that there is a set of study questions posted in the student section of the OLC for each of the 30 cases included in the 19th edition.)

You may also find it beneficial to have your class read the Guide to Case Analysis that is posted in the student section of the Online Learning Center for the 19th edition at www.mhhe.com/thompson. Students will find the content of this Guide particularly helpful if this is their first experience with cases and they are unsure about the mechanics of how to prepare a case for class discussion, oral presentation, or written analysis.

The length of the case makes it ideal for an in-class written case or a final exam case. Our suggested written assignment questions are as follows:

1. As a new business school graduate who has relocated to Cody, Wyoming and supports the local foundation to benefit the Wyoming Carmelites, you have been asked to prepare a strategic review and action plan for the Father Daniel Mary's consideration. Your report to Father Prior should include an evaluation of the monastery's mission, its vision for Mystic Monk Coffee, objectives for the monastery and the coffee operations, and MMC's strategy and business model. You should also propose recommendations to improve Mystic Monk Coffee's vision, objectives, strategy, business model, or approach to strategy execution. It is your job to convince Father Daniel Mary to pursue your proposed plan; hence your report should include full justification and arguments to support your recommended course of action.
2. Cody, Wyoming business owners have noted your quickly developing skills of analysis and growing business acumen and have asked that you prepare a report for Father Daniel Mary that evaluates Mystic Monk Coffee's mission, vision, strategy, business model, and operations. Your report should also make recommendations concerning strategic issues related to:
 - The vision and mission of the monastery and its coffee operations,
 - MMC's strategic and financial objectives,
 - MMC's strategy and business model, and
 - The action steps that will need to be taken to implement the strategy effectively.

Please provide supporting analysis and persuasive argument for your recommended course of action (you must convince Father Daniel Mary to do what you suggest!) and you need to be specific about what to do and how to do it.

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.

TEACHING OUTLINE AND ANALYSIS

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?**

Students should have little trouble recognizing that Father Daniel Mary's vision for the Carmelite Monks of Wyoming is to recreate Mount Carmel in the U.S. Rocky Mountains and transform 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. However, students should also recognize that there is no clear evidence in the case that Father Daniel Mary has articulated a vision for Mystic Monk Coffee.

If you are using this case as your lead-off case for the course, you may find that many students don't distinguish between the monastery and MMC and believe the Prior's general vision applies to the monk's coffee operations. To clear up this confusion and *to illustrate the lack of an appropriate vision for MMC, please have students compare Father Prior's vision to Howard Schultz's vision for Starbucks*. Howard Schultz's vision of bringing the Italian Espresso bar experience to America very accurately described his intended course and direction and helped stakeholders understand "where we are going." Schultz's vision for Starbucks was graphic, focused, desirable, and easy to communicate. The same can be said for Father Daniel Mary's vision for the Carmelite Monks, but not for its coffee business. Initially doubting students should concede that Father Daniel Mary has yet to spell out a long-term direction for Mystic Monk Coffee. There's merit to having students critique both visions using the information in Table 2.1 presented in Chapter 2 of the text.

You'll likely find that most students readily recognize that the *ultimate mission of the cloistered monks is to worship God*. Some may wish to begin a debate on the role of the monastery's coffee operations in pursuit of this mission, but we've found it's best to hold this discussion for the very end of the case discussion. We prefer to have students consider this dilemma after they've recommended an action plan that would help the monastery achieve its vision of creating a new Mount Carmel in the Rocky Mountains.

2. Does it appear that Father Daniel Mary has set definite objectives and performance targets for achieving his vision?

Students will find it very difficult to argue that Father Daniel Mary has set definite objectives or performance targets for achieving the vision. Other than the broad goal of obtaining funds to purchase the \$8.9 million Lake Irma Ranch, there isn't any evidence that the monks have set short-term or long-run goals for developing charitable contributions or for its MMC business.

3. What is Father Prior's strategy for achieving his vision? What competitive advantage might Mystic Monk Coffee's strategy produce?

Students will generally agree that Father Daniel Mary is relying on charitable contributions to the monastery and profits from its Mystic Monk Coffee enterprise to fund the purchase of the Irma Lake Ranch. Students should also recognize that *MMC does have a deliberate strategy, although it may be only tacitly understood among the monks*. The case doesn't discuss to what extent Father Prior has articulated the strategy to Brother Java (Brother Elias) and the other monks involved with MMC's operations, but students *should be able to identify the following elements of MMC's focused differentiation strategy*:

- Exclusive use of high quality fair trade Arabica and fair trade organic Arabic beans
- Variety of blends, roasts, and flavors to appeal to a broad range of coffee preferences
- Focus on U.S. Catholic consumers and those wishing to support the mission of the Carmelite Monks of Wyoming. An appeal was made to Catholics *"to use their catholic coffee dollar for Christ and his Catholic church."*
- Word of mouth advertising among loyal customers in Catholic parishes across the U.S.
- Majority of sales made through MMC's Web site
- Telephone orders accepted
- Affiliate program that provided 18 percent commissions to secular Web site operators allowing MMC banner and text ads to appear on their sites
- ShareASale participation program that allowed affiliates to refer new affiliates and earn 56 percent of the new affiliate's commission
- Wholesale sales to churches and local coffee shops
- Product line extension that included sales of T-shirts, mugs, gift cards, and CDs featuring the monastery's Gregorian chants

Students will generally approve of MMC's *focused differentiation* strategy and suggest that it is capable of building competitive advantage. The use of *high quality coffee beans, the variety of blends, roasts, and flavors and the Mystic Monk image produce a number of tangible and intangible benefits* for MMC customers. Students will also recognize that *MMC's focus on the 69 million members of the Catholic Church in the United States* makes the target market sufficiently large to earn attractive profits. Students should conclude that *even though MMC is incapable of sustaining an advantage in the industry based upon the quality of its coffee alone, its monastic relationship would be very difficult for a rival seller to imitate*.

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?

Even though MMC's business model has a compelling customer value proposition, there is reason for students to challenge the overall soundness of the business model. *MMC's attractive differentiating features and competitive pricing create a strong customer value proposition, but its profit formula is suspect.* Other than the lack of labor expense, MMC enjoys no cost advantage and many of its non-differentiating activities involve higher than normal costs because of its low production volume. The company's cost of sales of 30 percent, broker fees of 3 percent, and inbound shipping costs of 19 percent contributed to a cost of goods sold of 52 percent. Even though students might argue that some indirect operating expenses (37 percent of revenues) are largely fixed and might go down as volume increases, most of these expenses are somewhat variable and will increase with volume. *MMC's current sales and 11 percent net profit margin are quite insufficient to generate \$8.9 million in cumulative earnings within a reasonable amount of time.*

Students are also likely to note that *MMC generates losses on all sales coming from affiliate Web sites* since the company pays an 18 percent commission on these sales, but has a net profit margin of only 11 percent.

Students will also question whether the monastery possesses sufficient resources to operate a thriving coffee roasting and sales business. Current monthly sales of \$56,500 suggest that MMC sells about 4,250 pounds of coffee each month at a retail price of \$9.95 per 12-ounce bag. The capacity of the coffee roaster will allow for production of 540 pounds per day, which is about 22.5 pounds per hour. Brother Elias (Brother Java) is able to work for only 6 hours per day, which limits production to about 135 pounds per day. *At a rate of 135 pounds per day, it appears that Brother Java is working 7 days per week to meet MMC's current monthly sales!!* Students will also note that a larger roaster could be purchased that would push production to 130 pounds per hour, which would *increase daily production by a factor of 6.* Still there is much labor involved in packaging the coffee and preparing daily shipment pickups for UPS or the US Postal Service. *There is strong reason to believe that the monk's monastic constraints would prevent a six-fold increase in daily production, even if demand permitted such an increase in daily production.*

Students' overall assessment of the business model should recognize its flaws and conclude that MMC's current business model severely limits its ability to make a meaningful contribution to the purchase of Lake Irma Ranch. However, MMC's average monthly profits of slightly more than \$5,000 should go a long way to supporting the current operating expenses of the monastery. *Students may conclude that the business model is quite sufficient should Father Daniel Mary choose to scale back his vision.*

5. Does the strategy qualify as a winning strategy? Why or why not?

There's merit in directing students to the three tests of a winning strategy presented on page 9 of Chapter 1 of the text if you've chosen to schedule Mystic Monk Coffee as the lead-off case for the course. Assessments made by students may include the following arguments and comments:

- *Does the strategy fit the company's situation?* You should find the class more or less evenly divided in whether to classify MMC's strategy as a winner. The strategy fits the external situation nicely since the market for *specialty coffees had grown at an annual rate of 32 percent between 2000 and 2007 to reach \$13.5 billion.* Also, students should note that the retail sales of organic specialty coffee had grown to \$1 billion by 2007. MMC's focus on Catholic consumers in the United States represents a large market for MMC—and one that would arguably become very loyal customers. *Students who suggest MMC lacks a winning strategy are likely to point to a poor fit between MMC's strategy and its internal situation that requires monks to devote most of their day prayer and worship.*

- ***Has the strategy yielded a sustainable competitive advantage?*** There should be little disagreement that the strategy has the *potential to yield sustainable competitive advantage*, although it's debatable if such an advantage has been achieved at that time of the case. But students who say it's still unclear if any competitive advantage exists should concede that the company's \$56,500 average monthly sales suggest MMC has a growing and loyal following among Catholic consumers.
- ***Has the strategy produced good financial performance?*** Students' assessment of MMC's ability to pass the third test of a winning strategy depends heavily upon their perceptions of "excellent company performance." Students who are impressed with MMC's average monthly sales of \$56,500 and its average profit margin of 11 percent will suggest that the strategy has produced good financial performance. Those who are focused on the need to generate profits sufficient to generate funds to purchase the Irma Lake Ranch will argue forcefully that MMC's strategy has failed this test.

We tend to agree with students who find that MMC's strategy is a winning strategy and that its limitations to generate sufficient funds to purchase Irma Lake Ranch result from flaws in its business model. All evidence suggests that the strategy is a winner, but that the business model must be revised substantially if MMC is to experience dramatic increases in sales and earnings.

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.

Student recommendations are likely to fall into two groups, with one group suggesting that the vision be scaled back dramatically and the other group recommending an action plan to dramatically increase MMC's revenues and earnings.

Students arguing that Father Daniel Mary's vision should be scaled back drastically will be able to support such a recommendation with several facts from their analysis:

- The monastery does not have the human resources necessary to roast, package, and ship the volume of coffee necessary to accrue \$8.9 million.
- Additionally, Father Daniel Mary nor the other Carmelite brothers have the necessary business experience to manage a large coffee operation capable generating annual earnings in the millions of dollars.
- There is nothing in the case to suggest that the Carmelite brothers share Father Daniel Mary's vision to build a new Mount Carmel in the Rockies. It is quite likely that the brothers would prefer to pursue traditional monastery life rather than to be concerned with increasing Mystic Monk Coffee's annual sales and profits.
- Mystic Monk Coffee's operations are capable of supporting the expenses of the existing monastery without dramatic revenue and volume growth. Perhaps, Father Daniel Mary should be satisfied with MMC's currently monthly profits.
- Father Daniel Mary could choose to use the monastery's recent \$250,000 donation to expand the current rectory to provide additional living space for existing monks and any new monks joining the monastery. The Carmelites' current 42-acre parcel of land could be used to construct a larger rectory if the current ranch-style four-bedroom home could not be expanded.

Students arguing that Father Daniel Mary should stick with his current vision must make a number of recommendations for improving Mystic Monk Coffee's strategy and business model. Appropriate recommendations include:

- Before making specific recommendations to revise MMC's strategy and business model, ***students must first determine to what extent donations can be relied upon to generate funds necessary to purchase the Irma Lake Ranch.*** In our calculations, we've assumed that one-half of the funds necessary to purchase the ranch will come from charitable contributions.

- Father Daniel Mary should request that the Catholic Church send priests or others not constrained by a cloistered life to develop a strategy with Cody, Wyoming business people to maximize the potential of the foundation established for the benefit of the monastery. It's likely that the Cody, Wyoming business people don't have the know-how or time to generate substantial contributions to the foundation.
- Father Daniel Mary should also utilize the resources of the Catholic Church to find major donors willing to contribute to the creation of a new Mount Carmel. However, Father Daniel Mary's efforts might be limited by the Catholic Church's charitable giving requests for competing projects and needs.
- Assuming that charitable giving will account for 50 percent of the funding requirements to purchase the \$8.9 million Irma Lake Ranch, it would take MMC nearly 67 years to accrue \$5 million in earnings if its level of annual profits remains at \$75,000. Students going forward with recommendations to make MMC's profits a major contributor to the \$8.9 million purchase price should propose a plan that will allow MMC to record net earnings of \$1 million annually, at a minimum.
- The purchase of the larger 130-pound per hour roaster will not allow MMC's annual profits to increase to \$1 million since Brother Java's 6-hour shift will allow only 780 pounds of coffee to be roasted each day (130 pounds/hr x 6 hours). This level of production would allow MMC to sell up to 1,040 12-ounce bags of coffee each ((780 pounds x 16 ounces)/12 ounces = 1,040 12-ounce bags). This level of production at \$9.95/bag allows for daily revenues of \$10,348 and a daily profit of \$1,138 given the current profit margin of 11 percent. So, MMC's annual profits could arguably increase to about \$415,000 if demand could be increased to match the 6-hour capacity of the larger roaster. (A more simple calculation to project MMC's profits if sales increase by a factor of 6 involves merely multiplying MMC's current annual profits of \$75,000 by 6 to arrive at a projected annual profit of \$450,000.)
- Students should recommend that MMC use *its improved bargaining power stemming from any volume increases to negotiate better terms with its suppliers, shippers, and its coffee broker*. The case doesn't provide enough detail for students to make an exact determination about to what extent cost of goods sold could be decreased, but students should be able to come up with some easily supported assumptions. In general, students should be able to justify a reduction in MMC's cost of goods sold from 52 percent to about 48 percent - 50 percent because of enhanced buyer leverage as volume increases.
- Utilities, telephone, and Web site maintenance are indirect expenses that will increase as sales and production increase, but still *might offer some economies of scale opportunities*. Students should be able to justify a decline in operating expenses from 37 percent to about 33 percent to 35 percent because of scale economies.
- Students making the assumption that increased volume will allow MMC's net profit margin to improve from 11 percent to 15 percent - 19 percent, will note that MMC's daily net profit will increase to \$1,552 - \$1,996 based on daily sales of \$10,348. The improvement in margins would result in an annual net income for MMC of \$566,000 - \$717,500.
- Most students will recommend that MMC immediately *reduce commissions paid to affiliate Web sites*, since the current 18 percent commission cannot be supported.
- Students should recognize that even under the most favorable scenario, Father Daniel Mary will be *required to schedule additional 6-hour shifts* for MMC reach \$1 million in annual profits.
- Students should also recommend strategies that will allow MMC to increase sales to support higher levels of production. Possible recommendations include:
 - Send e-mails to Catholic churches in the U.S. asking that MMC coffee be used for church events and that parish members be told of MMC's Internet coffee sales.
 - Provide churches purchasing MMC coffee with a sign promoting MMC that could be placed near a coffee urn. The sign could improve awareness of MMC among members of Catholic parishes.

- Target coffee shops located in communities with large Catholic populations for wholesale purchases.
 - Promote the Wyoming Carmelite's vision of a new Mount Carmel and MMC coffee at Catholic religious conferences. MMC might consider providing conferences with free MMC coffee and promotional materials.
 - Students may suggest that MMC obtain permission to place banner ads or links to MMC on church and parish websites.
- Some students may recommend that MMC change its business model because of its resource limitations discussed in Assignment Question 4. Father Daniel Mary could adopt a business model that would allow the monks to develop new blends, roasts, and flavors at the monastery and have the production and shipping performed by a contract manufacturer such as First Colony Coffee and Tea. Such an arrangement would allow MMC to receive royalties much like First Colony's fine department store and specialty retailer customers do. MMC's **value proposition** would remain largely intact since the coffee blends, roasts, and flavors would be developed by the monks and some portion of the purchase price would go to support the monks and Father Daniel Mary's vision for a new Mount Carmel. The **profit formula** for a business model that relies on contract manufacturing would be more viable than MMC's current profit formula. Students should easily recognize that a contract manufacturer with a proven track record would have the **resources** necessary to produce and ship large volumes of packaged coffee.
 - Students supporting contract manufacturing may also suggest that First Colony or similar coffee producer might be able to help Mystic Monk Coffee gain access to specialty retailers who might wish to carry the brand.
 - Students who argue forcefully against contract manufacturing should be challenged by the instructor to consider the logistical problems should the Wyoming Carmelites be able to purchase Irma Lake Ranch and move MMC's operations to the new Mount Carmel. ***The ranch was at the end of a 7-mile private gravel road. Inbound and outbound logistics during much of the year would likely be extremely difficult given the duration of Wyoming's winters.***
 - As a final question to the group of students who may be against contract manufacturing, you should ask if MMC's increased volume would present a conflict with the overall mission of the monastery. ***How would the demands of operating a very successful coffee producer interfere with the men's vows and requirement to spend their lives in prayer and worship?***

EPILOGUE

Mystic Monk Coffee has added several new blends and coffee accessories at its Web site since the close of the case. You can visit www.mysticmonkcoffee.com to see the monastery's latest coffee offerings.

The monastery had also established the New Mount Carmel Foundation, Inc. to support Father Daniel Mary's vision of creating a new Mount Carmel in the Rocky Mountains. The foundation website (<http://www.newmountcarmelfoundation.org>) provides photo galleries, videos, news and other information related to the foundation's efforts to develop funding to build the mountain monastery.