

## **Kickapoo Coffee Roasters—sustaining entrepreneurial success**

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### **ABSTRACT**

Kickapoo Coffee Roasters had now been in business for 12 years. From humble entrepreneurial beginnings in a small town in rural Wisconsin, it had grown steadily over the years to becoming a multi-million dollar business that successfully met financial needs of the owners and was providing increasing economic opportunity and support for employees, farmer suppliers and for the local community. Growth of the business had slowed in the past year. With increasing competition and continuing challenges in sourcing the best coffees, the owners were considering what business strategies would best ensure continuing sustainable growth.

Keywords: coffee roasting, entrepreneur, sustainability, organic, fair trade



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## INTRODUCTION

It had been an eventful year for Kickapoo Coffee Roasters. Their coffees continued to get favorable reviews in the coffee industry press and two new retail coffee shop ventures were profitable. The new Kickapoo Coffee roasting location in the Viroqua Food Enterprise Center was working very well and providing necessary facilities to support production and administration with plenty of room for expansion. Growth of roasted coffee sales (their primary business) however, after years of double digit increases, and reaching \$2.5 million annually, had slowed, not experiencing the customary double-digit increases up until the last year. Owners, Caleb Nicholes and TJ Samanchin, were wondering what changes to current business strategies might be necessary if they were to continue growing the business in line with their overall mission of providing increasing economic opportunity and support for their employees, farmer suppliers and for their rural Wisconsin community. (Nicholes, 2017).

## BEGINNINGS

Kickapoo Coffee Roasters had humble beginnings, started as a small coffee micro-roasting business by Caleb Nicholes in the back of the Main Street Market in Viroqua, a rural, economically-challenged community in southwest Wisconsin. Nicholes launched the initial roasting facility in 2006 more as a hobby pursuit with limited visions for making it a substantial business. A partnership early on with TJ Samanchin had proven to be a melding of essential knowhow and leadership that propelled Kickapoo into a successful million dollar business within 5 years of startup. From the beginning, there had been a strong commitment to sustainability and close attention to environmental concerns, including refurbishing of an old train depot for their facility, restoration of vintage coffee roasting equipment, recyclability of packaging materials and cultivation of economically sustainable relations with their farmer-suppliers. In addition, Kickapoo coffee had grown the business at a sustainable rate financially without relying on debt for expansion and they were able to support a healthy and sustainable work environment for owners and staff including a 4 day work week. (Schreder, 2011)

In their early years, Kickapoo Coffee Roasters benefited from some fortuitous marketing exposure including winning a national award, Roast Magazine's Micro-Roaster of the Year in 2010 and recognition by Consumer Reports for outstanding quality of Kickapoo's Columbian coffee. They had extended their market reach to about 200 miles from their Viroqua location with sales accounts in Wisconsin, Minnesota, Iowa and Illinois. Customers included coffee shops, restaurants, grocery stores and health-oriented co-ops. They had also established a Website that supported marketing and online sales. (Schreder, 2011).

## CONTINUING GROWTH

While reaching \$1 million in sales along with good profits within 5 years had been an enviable achievement, Nicholes and Samanchin were intent on continuing growth and realized that this would require larger production and administrative facilities, additional capital, and increased sales efforts.

They considered adding on to their old restored train-depot facility and had acquired adjacent land for expansion. But a newly available facility, the Food Enterprise Center, had recently opened in Viroqua. A 100,000 square foot structure on 15 acres of land—formerly a

National Cash Register (NCR) facility—was acquired by the Vernon Economic Development Association (VEDA). It had gone through extensive rehabilitation and reconfiguration into a facility designed specifically as a business incubator for food-related businesses. Infrastructure and capabilities in this facility included loading docks, ample parking, value-added kitchens and custom built-out tenant spaces as well as administrative and business services support through VEDA including consulting assistance for tenant businesses in obtaining grants and non-conventional financing (VEDA, 2016)

Moving to the Food Enterprise Center meant letting go of some of the nostalgic associations of their minimalist old train depot location, but a move would ensure plenty of space and other resources for growth and taking the business to the next level. A decision was made to make the move. Kickapoo initially leased 15,300 square feet of space. Building out the space into a suitable production, warehousing and administrative facility was a substantial financial commitment. VEDA was able to roll a substantial part of the build-out expense into Kickapoo's lease and VEDA helped secure additional financing from a United States Department of Agriculture (USDA) grant as well as via incentives from the State of Wisconsin. (Nicholes, 2017).

The move to the new facility was completed by spring of 2014 and allowed much needed space for storage, production, shipping and sales functions as well as accommodating needs for a growing production and administrative staff. The new location had an attractive industrial design that provided an appealing ambiance for workers as well as for on-site sales and promotional outreach activities including open houses and coffee tastings with the local community.

## **SUSTAINABILITY AND ENVIRONMENTAL INITIATIVES**

The Viroqua area of Wisconsin has developed into a hotbed of business activity for those attracted to sustainability, environmental conscientious and organically grown foods. Examples include farm-to-table restaurants such as the Driftless Café (Driftless Cafe, 2018), Community Supported Agriculture (CSA) cooperative farms such as Harmony Valley (Harmony Valley, 2018), health-oriented grocery stores such as the Viroqua Food Coop (Viroqua Food Coop, 2018) and other food and beverage producers such as organic Wisco Pop, also located in the Food Enterprise Center (Schreder, Wisco Pop! - A Case Study on Building Entrepreneurial Success With Limited Resources , 2017). Organic Valley, the nation's largest producer of organic dairy products, is located in the Viroqua area. (Organic Valley, 2018).

Nicholes and Samanchin, in keeping with their interest in sustainability and environmental concerns as well as good business economics, decided to install solar energy. In 2015, this led to installation on land adjacent to their new location of a 25 KW 80-panel solar array hooked up to the local area power grid. Excess electricity production beyond their operating needs is a credit on their electric bill. Approximately two thirds of the project investment was covered by Wisconsin state energy and Federal USDA grants as well as a 30 percent tax credit. The remainder of the project costs were funded by local community investors, who are repaid based on energy cost savings until the system is paid off. The project is expected to pay for itself (in terms of energy cost savings) within 7 years and is currently covering 100% of electricity needs. (Roast Magazine, 2015) (Nicholes, 2017). In addition to being a good business investment, the project has generated excellent public relations. Kickapoo Coffee Roasters was named by Greenbiz, as leading in their ranking of the "10 most sustainable coffee businesses in the United States." (Greenbiz, 2016).

## PRODUCT AND SUPPLY CHAINS

Kickapoo Coffee Roasters offers a wide variety of roasted coffees of various types, including single origin, blends, and decafs, most of which are organically grown and sourced from producers in coffee growing regions around the globe. A current listing of available coffees includes single origins from Peru, Burundi, Columbia, Ethiopia, and Kenya and blends including light and dark roast varieties.

Kickapoo has always believed it is essential to well-support their farmer coffee growers and farmer cooperatives located in relatively economically depressed areas in sub-tropical environments of coffee growing areas of Central and South America, Africa and Indonesia. In some cases, this takes the form of financial support by Kickapoo to farmers during their growing and production season, particularly as most of a farmer's costs and labor takes place in the months before the coffee bean harvest. Farmers typically belong to a local coffee cooperative that processes the raw coffee fruit from local farmers, and exports the processed green coffee beans. Kickapoo recently made a public commitment (published on their Website) to pay a minimum of \$2.75 FOB per pound to their coffee suppliers. They believe this is the highest published price in the industry and is a step in efforts to address generally declining economic sustainability of coffee farmers around the world. (Nicholes, Caleb; Samanchin, TJ, 2018).

Kickapoo sources about half of their raw coffee beans directly from farmers (and their local cooperatives) and about half from the Cooperative Coffees organization. Kickapoo is one of 20 coffee roaster members of this organization whose purpose is "to import high-quality, organic green coffee from small-scale farmer organizations to build long-term relationships and foster fair and equitable trading practices." And it states that its "goal is to make coffee-growing a sustainable and beneficial endeavor for farmer families and their communities." (Cooperative Coffees, 2018).

The Kickapoo Coffee Roasters Website includes extensive notes on each of their coffees with a particular emphasis on the sustainable relationships formed with their farmer suppliers. The following is an example of the description and notes about their Burundi Nemba coffee:

*"ABOUT NEMBA WASHING STATION - Sometimes our best intentions lead us down some pretty crooked roads. Fortunately, when it comes to coffee, there's usually something special at the end of those out-of-the-way paths. The communities and the story behind this coffee are no exception. See, when we bought this coffee, we also bought a herd of goats. Let us explain. In February of 2017, we committed to guaranteeing better farmer compensation. We set an industry-leading baseline price for all the coffee we purchase--more than 70% above the price for conventional fair trade coffee. The only problem was these wonderful coffees from Burundi didn't cost enough. The solution wasn't simply cutting a bigger check because our guaranteed price has to go back to farmers, not exporters. Fortunately, Greenco, the company we worked with to bring these coffees in-house are an exceptionally creative and engaged group of people. They proposed that we used the additional funds we wanted to pay for these coffees to purchase goats to be distributed to the communities that grew the coffee, a resource that would diversify their incomes and help them become more economically stable. The Nemba coffees are truly remarkable. They've been standouts in Burundi's Cup of Excellence competitions and have been a favorite of ours since we've tasted them. We never anticipated getting into the goat trade, but we're happy to be playing our part. We're also thrilled to be working with an organization like Greenco. Having an increased*



*and lasting connection to the farmers in the Nemba community is a truly special, unforeseen opportunity. Here's to heading into uncharted territory and finding what you didn't know you were looking for.” (Kickapoo Coffee Roasters, 2018).*

## **PRODUCTION AND DISTRIBUTION**

Their original vintage German coffee roaster reached its capacity potential and they had recently sourced in Germany another larger vintage roasting unit of the same original manufacturer that would significantly increase capacity. As with the original roaster, the newly acquired unit was completely rebuilt and retrofitted with up-to-date electronics. This allowed for close tracking of numerous metrics in the roasting process that proved to be essential in maintaining roast quality from one batch to another. Production now is very automated but varying batch sizes and environmental factors result in somewhat of a “moving target when trying to hit certain quality standards.” Temperature and humidity controls in the new facility, in both green coffee bean storage and in the roasting areas are also instrumental in quality control.

Production of roasted coffees is based on orders on hand with delivery by Kickapoo's own vehicles within their service area on Mondays and Fridays and shipping of orders by common carriers (such as sales from their online Web site) on Tuesdays and Thursdays. Most of their retail accounts continue to be within about 200 miles of Viroqua in Wisconsin, Minnesota, Iowa and Illinois.

Weekly leadership management meetings are held to assess production, marketing and financial performance including pounds roasted, energy produced (via solar panels), Internet sales, and errors in order fulfillment. A scorecard is kept in this regard and this data informs efforts for continuous operational and financial performance. (Nicholes, 2017)

## **HUMAN RESOURCES AND OPERATING PRINCIPLES**

There are 15 people now employed by Kickapoo Coffee Roasters. Owners, Caleb Nicholes and TJ Samanchin (along with TJ's wife), are each 50% stockholders in the company (corporate ownership form). Owners are compensated with a salary as well as dividends that are linked to profitability. Six employees are involved in production and are compensated with salary plus incentives based on production. The rest of the staff are employed in areas of administration and sales. Yearend profit sharing for employees is on an individual basis based on meeting individual goals and longevity. Kickapoo covers about three quarters of employee healthcare costs and there is a 401K retirement plan for employees that includes a 3% company match. From the beginning, Kickapoo has been on a 4-day work week (8 to 9 hours per day). This has been an attractive recruiting factor and helped maintain a very low level of turnover. Kickapoo also gives back 5% of profits to the communities they deal with including farmers and cooperative suppliers.

Once Kickapoo reached a certain threshold where they were financially viable they asked themselves “what's next.” If they were going to continue to grow, “why?” One thing not captured in their original vision statement was their goal to be an “economic engine within their economically challenged community and their growth as potential for job creation and economic empowerment in the community as well as extending their principles further out to farmers and coffee suppliers.” As a result of several meetings to better define their vision and goals, the leadership team formulated five Operating Principles: “Excellence Always; honoring

relationships; gratitude, celebrating joy, wonder and purpose; and service to the earth and greater good.” These five principles have become the guide for evaluating all aspects of business strategy-setting and operations including their approach to hiring, firing and promotions. (Nicholes, 2017).

## EXPANDING SCOPE OF THE BUSINESS

Kickapoo Coffee Roasters had always focused on wholesale sales of roasted coffees to their retail customers. Nicholes and Samanchin realized that opening their own retail coffee shops under the Kickapoo Coffee trademark presented opportunity for expanding the scope of the business. Running a retail coffee shop, however (along with the attendant variety of food items to go with coffee), would require different management skills and strategic focus. They would also need to be careful not to compete with their current retail customers.

In 2015 they explored opportunities to open a coffee shop in Milwaukee, Wisconsin. There was an interested party there—an employee of another coffee shop in Milwaukee—to partner with and that would be responsible for day-to-day operations. Kickapoo entered into a partnership where they would provide much of the financial wherewithal for constructing a new coffee shop, retaining a two thirds ownership interest, and the local owner-operator a one third interest. This “Kickapoo Coffee” branded shop opened in late 2015 and has grown in line with goals since opening. (On Milwaukee, 2015) (Nicholes, 2017).

In 2017, Kickapoo decided to open their own retail coffee shop in Viroqua. An opportunity became available to acquire property—previously an auto service station—on Main Street, not far from their roasting headquarters. This also involved getting together with a managing partner with Kickapoo primarily involved in building out the space and supplying financing. The Viroqua “Kickapoo Coffee” location opened in mid-2017, was shortly profitable and had become a popular local meeting spot offering coffee and a variety of other food items specializing in locally-sourced ingredients. (La Cross Tribune, 2017) (Nicholes, 2017).

## SALES AND PROMOTION

Kickapoo Coffee Roasters has traditionally relied on word-of-mouth and exceptional service for promoting their coffees. Facebook and Twitter provide a means for keeping customers abreast of current news including new roasted coffees, locations served, awards, tasting events, etc. They have limited printed medial advertising to regional food-related publications such as *Edible Madison*, a regional magazine focused “on Southern Wisconsin's food and agri-culture through the stories of the local farmers, food producers, chefs, food educators and forward-thinking organizations that are behind the region's dynamic local food movement.” (Edible Madison, 2018).

Excellent publicity is gained via recognition in industry trade publications such as *Coffee Review*, that has recognized the high quality of Kickapoo Coffees numerous times over recent years including an outstanding recent rating for Kickapoo Coffee Roasters Organic Ethiopia Kirite that “tied for the second-highest rating in a tasting of 71 organic-certified coffees from Africa for *Coffee Review*'s November 2017 tasting report.” (Coffee Review, 2017). Kickapoo has also gained national recognition via numerous *Good Food Rewards* including in 2016 for their Organic Ethiopian Yirgacheffe Idido Cooperative coffee. Awards from this organization are

presented to “food and drink producers who have demonstrated a commitment to be part of building a tasty, authentic and responsible food system.” (Good Food Awards, 2018).

The majority of business—approximately 90%—is with coffee shops, restaurants and retail grocery stores in their region extending to Minneapolis, Milwaukee, Madison and a few accounts now in the Chicago area. Grocery store accounts include numerous health-oriented food coop stores in their region as well as with Whole Foods Markets in Madison and Milwaukee. Online coffee sales continue to grow along with the overall business and make up about 7% of sales. Coffee subscriptions are available via online sales, allowing customers to receive periodic shipments customized to their type of coffee and grind preferences. Other smaller sales channels include community sources agriculture organizations (CSA’s), where coffee is included in periodic weekly or biweekly seasonal local food distributions to customer subscribers via memberships. In addition to coffee, Kickapoo’s online sales site features other coffee-related accessories such as coffee brewing and grinder apparatus, apparel, gifts and mugs. Kickapoo no longer produces for private label accounts, deciding to focus on its own brand. Kickapoo Coffee (in both 12 ounce and 5 pound packaging sizes) are available via Amazon. Orders placed through Amazon are drop-shipped by Kickapoo and are not part of the Amazon Prime free shipping program.

As part of the sustainability and recyclability objectives, Kickapoo originally marketed their coffees for grocery accounts in steel cans. Feedback from retailers indicated a preference for paper packaging, resulting in phasing out of steel cans and going to paper accompanied by new graphics that enhance visual packaging appeal. (Nicholes, 2017).

## **INDUSTRY TRENDS AND THREATS**

Due to relatively low entry barriers, many coffee roasting businesses have sprung up in recent years and this has had an impact on Kickapoo Coffee Roasters demand. CoffeeBeaned.com, a directory of Internet-listed coffee roasting businesses, currently includes over 1700 coffee roasters in the U.S. including 53 in Wisconsin. In addition, many, even stand-alone coffee shops, roast their own coffees, often on coffee shop premises. (CoffeeBeaned.com, 2018).

When discussing long term threats, aside from increasing competition, Nicholes mentioned climate change and its potential for catastrophic effects on specialty coffee production around the globe. A report by the British Broadcasting Corporation (BBC) details some of the concerns in this regard. Worldwide consumption of coffee has doubled in the last 35 years from 4.8 in 1980 to 9.5 billion kilos in 2016, while demand of high quality coffees in the past few years has outstripped supply. Due to climate change, the portion of suitable acreage for growing of high quality Arabica coffee beans is projected to decline dramatically, including 48% in Central America, 60% in Brazil and 70% in Southeast Asia. (BBC, 2017).

This report includes discussion with Dr. Tim Schilling, director of the World Coffee Research Institute, an organization funded by the global coffee industry who says: “The supply of high-quality coffee is severely threatened by climate change, diseases and pests, land pressure, and labor shortages - and demand for these coffees is rising every year.” In some coffee areas, temperatures have already risen enough to begin having quality impacts, he adds. “The logical result of that is that prices will need to rise, especially for the highest quality coffees, which are the most threatened.” (BBC, 2017).

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