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Abstract

Hiroshima-based Kamotsuru Sake Brewing Company not only has a long history but is a successful producer in a slowly declining industry. It has a well-known brand, which Prime Minister Abe served President Obama in Tokyo. This essay looks at the company and at the challenges it and its industry face from the changing nature of the beverage market generally and the alcoholic beverage market in particular.

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Sake brewing is considered a declining industry. Consumption has been falling since at least the 1970s. Whiskey, wine, and other alcoholic drinks have broadened choice, and in the last decade or so overall alcohol consumption has declined. The number of breweries has been falling for over a century. But even within a declining industry, specific firms can survive and even flourish. This note looks at one such company.

Kamotsuru Sake Brewing Company is a well-established, successful sake brewery, with a major brand. According to its tradition, it began operation in 1623, adopted the Kamotsuru brand name in 1873, and was incorporated as a family-owned and managed company August 28, 1918. It has a paid-in capital of a mere ¥10 million (\$83,333 at 120 yen/dollar), but no debt and, undoubtedly, substantial accumulated reserves. Sales data were not disclosed.

Kamotsuru produces 20 different sakes. Because they are bottled in an extraordinarily wide range of containers (some of which are considered collectible), there are about 370 different products in all, some seasonal. The price range is equally wide – a 1.8 liter bottle of the most expensive daiginjo is ¥30,000, the cheapest is ¥1,934 (plus taxes). (Sake traditionally sold by the “sho,” which is just over 1.8 liters, hence the modern bottle size.)

Kamotsuru is in the Saiji district of Higashi-Hiroshima City, about 35 minutes by train east of Hiroshima. The Saijo area considers itself “one of Japan’s premier sake brewing neighborhoods” where “you will encounter some of the world’s most prestigious and oldest sake breweries.” To promote it, the area’s 8 firms have a common web site (in English, French, and German, as well as Japanese) to encourage visits and tastings.

Kamotsuru achieved special recognition when one of its sakes was served U.S. President Barack Obama when he and Prime Minister Shinzo Abe ate at world-renowned Tokyo sushi restaurant Sukiyabashi Jiro on April 23, 2014.

How that came about is an interesting story. Sukiwabashi Jiro has regularly stocked and served Kamotsuru sakes for more than 40 years. The Foreign Ministry, in arranging the Abe-Obama dinner, asked the restaurant's owner, Jiro Ono, to serve a well-known sake from Yamaguchi Prefecture. Mr. Jiro said he did not stock it, and if the Foreign Ministry official would deliver it, he would use it. The Foreign Ministry official never did. So Mr. Jiro used his preferred brand, the award-winning Kamotsuru Daiginjo Tokusei Gold. Kamotsuru's sakes have received 100 awards for quality since 1970. I understand Obama and Abe were delighted. (This sake is available on-line in Japan for just ¥1,378 [plus tax] for two 180 ml bottles).

Akinori Fujihara is the first CEO not to come from the founding family. A banker at Hiroshima Bank most of his career, he was brought in 2009. There probably were several reasons for his being hired. The founding family has become numerous and wide-spread; there is no single dominant shareholder; and no family members currently work at Kamotsuru. Moreover, in an increasingly competitive environment, the company has had to revise its business strategy, operations, and its mindset.

About 30 percent of total production (by volume, 50 percent by value) is high quality sake produced largely by hand. Kamotsuru has three brewery facilities, one rice polishing mill, and a bottling factory. We visited the brewery next to the headquarters office, and observed rice early in the production process, both in huge vats and in a huge amount being piled together by hand by several workers. (A good presentation of the sake brewing process is at <http://sake-world.com/html/how-sake-is-made.html>.)

Like many beverages, Kamotsuru touts the quality of the water used: "made with water drawn from subterranean sources in Hiroshima's northern Takamiya highlands."

Kamotsuru has 80 regular, full-time employees, and hires an additional 20 to 30 during the approximately nine-month sake-brewing season that begins with the rice harvest (September-October). There are three brewmasters, one a college graduate and two high school graduates. One is fairly young, about 36. The standard workweek is 8:00am – 5:00pm, five days a week. However, the manual production process for sake sometimes requires work overnight.

Kamotsuru currently has no problems regarding demand. It sells through select distributors, special customers, and online. About 3 percent of production is exported. Japan exported ¥10.5 billion (\$87.5 million) worth of sake in 2013. It is critical to monitor the temperature of sake as it is shipped and stored. The ability of major distributors to maintain proper temperature control is a key factor in being selected. Finding overseas distributors is not easy; the company has to send someone to check them out. The first priority remains the domestic Japanese market.

Although in excellent shape now, Kamotsuru faces significant longer-run challenges. Hard data are hard to find – especially in separating physical volume from yen value, but the domestic sake market generally is considered to have peaked in the mid-1970s, although 2011 saw a resurgence attributed in part to helping the Tohoku region’s earthquake-damaged brewers. The decline has been mostly in the low-end types. Total consumption of alcoholic beverages has been declining in Japan for over a decade, but sake appears to have declined less – beer and its relatives (happoshu, etc.) were the biggest losers. Wine, considered more cosmopolitan by younger drinkers, although still a small factor in the overall alcoholic-beverage market, has been growing at the expense of sake.

The industry is fragmented, with almost all firms family-owned. There are no dominant producers but rather many brands well-known at least locally. There are sake breweries in all 47 prefectures; Hiroshima prefecture alone has 50 sake producers. The largest producer is Kobe-based Hakutsuru, which has diversified into importing wine and selling cosmetics (many rice based) and even developed its own strain of rice. Note that much of the sake sold in the United States is made in the US by Gekkeikan Sake (USA), Inc.

There are essentially no new entrants. Weaker firms exit the industry because there is no family successor, no buyer of the firm, and limited prospects. In the early 1970s Japan had over 4,000 sake breweries. There are something over 1,200 currently. Presumably exiting and other weak firms are losing money. Given the industry’s long history of family-owned private firms, the tradition is to maintain and sustain the business. Given this pride, the concept of buying or selling the company is not an element of the industry’s ethos. Private equity firms see this as an industry of potentially profitable consolidation, but not much has occurred yet.

Kamotsuru is in a good sales position because demand for higher quality is increasing as Japanese consumers trade up. Nonetheless, Kamotsuru faces significant challenges.

Over the years, in response to market demand opportunities, Kamotsuru has expanded its production and sales into a wide range of sake products of different qualities and prices. As a long-run strategy, that was a mistake. So one challenge is to eliminate production of lower-valued sake, and focus production and sales on the premium products.

At the same time, the company has to achieve a more integrated and consolidated wholesale distribution system, as retiring Mom and Pop stores are replaced by 7-Eleven, Aeon, and other chains. Wholesalers and distributors want sufficient supplies to make their efforts profitable. The company's web site offers shopping.

The company intends to increase production of high-quality sake by 10 percent or so in the next 3-4 years to ensure adequate distribution and marketing.

A further challenge is to invest in new facilities to replace old and outmoded facilities. One brewery was built before World War II. Another was built 20 years ago and is now too large. It needs to be replaced by a somewhat smaller facility that embodies new production techniques and lay-out. The bottling facility also is outmoded; it cannot meet new government and company standards for food safety and security. It will have to be renovated or replaced. Since the company has sufficient resources to pay for these capital investments, finance is not a problem. I gather loans from the DBJ and local banks will be available as well.

Human resources will soon become a serious problem. The company currently does not need to hire new full-time workers to maintain a staff of 80 regular employees. They constitute a significant cost since the company does not produce sake in the summer, and the number of tasks to keep them busy is limited. The bigger problem, however, is how to maintain the pool of 20 to 30 seasonal employees who are hired only for the fall-winter-spring period during which sake is being produced. The current group of seasonal workers is now elderly; when they retire or die they will be difficult to replace.

Perhaps the biggest challenge for the company is the traditional mind-set of its management. Even though some costs are high, the company can do well for some time

with its existing production facilities and current staff. Kamotsuru still seems to have the atmosphere more of an extended family than a long-run, profit-oriented business. It is not easy to persuade the existing management to discuss these issues and to take on the risks of making the changes that Mr. Fujihara deems essential over the longer run. Fortunately, with its large financial reserves and its strong brand, the company does not have to change quickly. Mr. Fujihara thinks it will take a decade or so to develop a new management structure, train employees, and to carry out the necessary changes.

The sake brewing industry will go through tremendous structural adjustment in the coming decade, with significant exit and consolidation. Kamotsuru is in a strong position now. How will it prevail? The family has received and rejected offers to buy the company. The company does not have the managerial capacity to buy other companies through M&A and change them; it has to focus its energies on internal change.

One thing is sure: the Kamotsuru sake brand will continue to do well; it is delicious.

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