This case describes the drastic changes in sake distribution channels in Japan since 2000. The number of local sake breweries and amount of sake production has significantly decreased. In 2000 there were about 2,000 breweries in and by March 2009 their number had decreased to 1,353 breweries.\(^1\) A discussion of current sake distribution channels together with an analysis of the structural changes in sake production in Japan during the last 50 years suggests several hypotheses on the possible evolution of sake distribution channels. After learning about the Kitayama brewery story and considering experts’ advice, the reader should consider the future potential for the Japanese sake supply chains and create a defensible policy for a small local brewery.

Hiroshi Kitayama, the owner of a small kura\(^2\) in the Kansai area of Japan (the middle part) was wistful this morning as he planned his day. Kitayama’s mother had passed away several days previously at the age of 78, and a priest was invited this morning to conduct a traditional ceremony of ritual mantras to Bodhisattva, which are held weekly during the seven weeks after the funeral. Throughout these 49 days Kitayama san will have to refrain from entering his brewery, even to just step inside. Hiroshi knew that he could count firmly on his toji\(^3\), but it was still quite unusual for him to start the day without taking a look at rice steamers and vats where the koji\(^4\) mixture takes over the rice (see Figure 1). Kitayama san enjoyed getting a whiff of fermentation to balance the day with his effervescent pace.

Kitayama san thought that he promised yesterday to help his workers with rice polishing for Junmai-Shu and Ginjo-Shu sake (traditional sake; see Figure 2 and Table 4 later). Because this function is in another building, he would not break the religious rule, so he planned to do that in the early afternoon. The morning hours are good for thinking quietly, and Kitayama san decided to study attentively the possibilities of enlarging his distribution network to maintain sales.

Recently Kitayama san received a proposal from a new association promoting the principle Chi San Chi Sho (local production, local consumption), and he thought that it might become an interesting prospect to consider in terms of new distribution possibilities, especially

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1. This is the number of breweries that produced sake in the brewing year of 2008 (from April 2008 to March 2009). The number of sites possessing a licence to produce sake is 1,842 according to the National Tax Agency\((2008)\).
2. Kura or Kuramoto refers to a small sake brewery or a place where sake is brewed. In general, a kura is a one-story house with thick fireproof walls to protect valuable items.
3. A toji is a brew master who controls the whole process of sake production. A similar position is held by an oenologist in wine making. The toji’s name is sometimes written on a sake bottle’s label, and is thought of as a sign of exclusivity.
4. Koji is an enzyme essential for brewing sake and used in producing most of the alcoholic beverages of Asia.
because it concerned natural bio agribusiness products like traditional Junmai-Shu. The new rice producers’ network was in his relatively close neighbourhood, so the association asked him to brew sake made with rice grown in their hometown. Kitayama san accepted their request in 2008, considering the positive impact his decision had on his social contribution to the regional economy, increasing agriculture production, and protecting the natural environment of his hometown. However, there were certainly some changes that might have far-reaching effects, which needed to be explored carefully. The local wholesaler, with whom Kitayama has dealt, now has become a distributor, and this could also affect all the distribution channels of Kitayama sake.

Sake sales started slipping since 2005 and they still continue to decrease. Table 1 shows the latest statistical data on sake production figures in volume.

Large and medium-sized breweries especially have decreased their turnover; however, some small local breweries have recently grown at a steady pace. The Kitayama brewery is one of them. Their sales began a yearly increase in 2007. The current sake distribution channels of Kitayama need to be reconsidered to continue this success.

The history of sake production in Japan

The traditional rice wine of Japan, sake, known as ‘the drink of the Gods,’ has a history of more than 2,000 years steeped in tradition, innovation, and custom. Sake is used for many different purposes in the Shinto religion, including as an offering to the gods and for purifying the shrine. It still remains one of the most popular alcoholic beverages in the country, but in 2004 the volume of the production of Honkaku-Shochu surpassed that of sake (see Figure 3).

Sake production was always strictly regulated by the authorities because it is made from rice grains and rice is the staple food for the Japanese nation. The brewing process required ample space to ferment in one year and its successful production was dependent to a great extent on working capital. Thereby brewers were representatives of the upper-class in Japan and originally sake was produced and consumed mostly by the upper classes. Before the Edo period (1603-1867), large land owners produced sake from rice surplus for drinking during the festivals in the villages. In 1657 the Tokugawa shogunate started issuing licenses (the wooden labels) for sake production. This measure led to a total control of the number of breweries all over Japan. Each year the authorities also allocated the amount of rice available for sake production.

After the Meiji restoration in 1871, the new government wrote the first rulebook on collecting liquor taxes. According to the new regulations, all persons possessing sufficient capital were allowed to operate their own sake breweries. Within a year around 30,000 breweries sprang up throughout Japan. The Japanese Industrial Revolution helped increase production by introducing automation and machinery into the brewing process, so a popular drink became even much more available. Conversely heavy additional governmental taxes were levied on sake production during the next 20 years. Consequently, by 1919 the number of the breweries had decreased to 9,552.

During World War II, the Japanese government effected a compulsory consolidation of Japanese enterprises. The sake brewing industry was considered to have little contribution to a wartime nation; both the number of breweries and the output were reduced by almost 50 percent. Half of the breweries were closed down or changed to war plants.

After WWII, the sake industry still remained under governmental control, with imposed strict quotas on rice grain material. The government decided to add artificial additives to sake to cope with the lack of rice material. Even after the 1955 revival of the Japanese economy, the quota of rice material and the price

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Table 1

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sake</td>
<td>505</td>
<td>513</td>
<td>449</td>
</tr>
<tr>
<td>Shochu (continuous distilled liquor of 25%)</td>
<td>402</td>
<td>416</td>
<td>424</td>
</tr>
<tr>
<td>Honkaku-Shochu (single distilled liquor of 25%)</td>
<td>587</td>
<td>600</td>
<td>627</td>
</tr>
<tr>
<td>Beer</td>
<td>3470</td>
<td>3536</td>
<td>3650</td>
</tr>
<tr>
<td>Other beverages</td>
<td>1848</td>
<td>1816</td>
<td>1882</td>
</tr>
<tr>
<td>TOTAL</td>
<td>8819</td>
<td>8887</td>
<td>9037</td>
</tr>
</tbody>
</table>

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5. A famous Japanese saying is “having built up Kura” which means getting rich.

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The ordinary rice grains (right) and the milled or polished rice grains (left).
control of sake continued. The big breweries decided to buy sake from local breweries (Oke-Uri, see following for details) to improve the quality of their product.

Until the early 1960s the prices for sake were fixed by the authorities and based on regulations and taxations, despite the fact that the sake industry suffered from overproduction. The rapid economic growth of Japan at this time and the liberation of prices in 1964 boosted production of sake all over the country. An authorized production cartel was carried out from 1969 to 1974, but it was ineffective. In 1964, the small and medium size enterprises (SME) promotion law was adopted to upgrade an industrial structure and improve the productivity of SMEs. It included various measures to modernize designated industries, which included the sake brewing industry, for the next decade. Thanks to this law, groupings of breweries through joint businesses, alliances, mergers, and cooperation were stimulated and facilitated.

Nevertheless, the structure of sake production was not much affected by the law: most of the sake breweries had a long history, and the owners cared about maintaining the family business and their own brand. Eventually, the SME promotion law proved to be effective by creating bottling cooperatives.

By the 1980s, local sake breweries had come to a summit of success. Local sake, especially in the Nigata prefecture, the northern part of Japan, attracted considerable attention and attained a significant growth. Since then, sake production and the number of sake breweries have decreased. There were 2,512 breweries in 1983, and in 2007 there were only around 1,700 breweries possessing licenses.

The sake brewing process and the role of the toji

Until the 17th century, sake was brewed all year round. From the mid-17th century on-the early period of Edosake brewing became a seasonal affair from October to March, and a temporary employment relationship was introduced to the kuramoto. The toji and kurabito were farmers or fishermen during summer, and at the beginning of autumn moved to a kura to work. Most toji did not live close to their kura; sometimes they lived as far away as hundreds of kilometres.

Brewing sake itself needs constant efforts, like many processes; in particular, controlling the koji and yeast are quite complex. It is considered more of an art than engineering or a science. The ultimate responsibility for the quality of the final sake product lies on the toji, who should master every technical aspect of brewing. Although brewing has always depended on a toji’s six senses, nowadays measuring instruments have been introduced to help in sake creation. Minimally, toji have to be good at numbers; they calculate from the given data to make production plans and keep accounts to pay taxes.

However, the toji’s duties extend beyond actual brewing. Toji recruit kurabito (often coming from far-away villages) and sign contracts with them. For almost six

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7. The artificial additives were alcohol, starch syrup, saccharine, shochu, and an amino acid that tripled the sake yield and was called triple brewed sake. Until 2006, when the liquor tax was revised, this triple brewed sake was also called just sake.
8. Bito means the person, so kurabito is a name used for workers in a sake brewery, kura.
months, the toji and the kurabito work together constantly, live in the same place, and are separated from their families. As the administrator, the toji care for the kurabito and try to provide a peaceful atmosphere in the kura. It is no exaggeration to say that the success of the brewery depends on the ability of toji.\footnote{There is a Japanese saying used in a brewery, ‘Wajo Ryosyu,’ which means ‘Friendship makes good sake.’}

There are some areas in Japan, such as Tajima (Hyogo), Tamba (Hyogo), Nambu (Iwate), that are traditionally famous for producing talented toji. The toji who come from these areas are said to be as talented as the brewers. Ancient sake-brewing techniques and skills have been inherited by those in toji groups across Japan. However, not all kurabito can become a toji because the toji employment system is based on merit. Toji have to possess different talents: being a good technician, a well-organised administrator, and a person of character.

Many kuramoto have been operating for 200 or 300 years and have been handed down from generation to generation, remaining in the same family even now. Some kurabito also have been working for many generations but not always in the same kura. Nowadays, not every sake brewery has such talented toji. In addition, it is not essentially a contract system: the toji is a part-time worker although also considered an independent craftsperson.

In the 1960s big sake companies in Nada and Fushimi built new factories equipped with air-conditioning and started operating year round. At the same time, they no longer used the toji employment system.

Some small kura wanted to maintain old traditions and combine them with new approaches. In one kuramoto, the president’s son went to university to study fermentation, and after the training, became a toji. In another kuramoto, the president decided to abolish the toji employment system, and the toji and kurabito became full-time employees of the company. The number of farmers declined in Japan; in 2001, there were 1,196 toji and 1,960 kurabito registered with the Japanese Toji Association.

**Sake distribution channels**

In the early Edo period, sake breweries developed within town limits or in their close vicinity. Later, sake breweries expanded into rural areas.\footnote{Nishinomiya S. (1989), p. 208.} Since the late 1880s rural sake breweries spread, vanquishing the town sake breweries. During this same period, the sake trade flourished: merchants bought sake in areas famous for good quality sake, such as Ikeda, Nada (Hyogo), Fushimi (Kyoto), and shipped it to the huge Edo (Tokyo) market. Thanks to an exclusive privilege given to them by the Tokugawa shogunate in the middle of the 17th century, merchants built up an immense capital and prospered until 1927, when they began to lose power because of a financial crisis.

Although breweries in Nada and Fushimi enjoyed the benefits of trading sake with Edo merchants, when they became large enough, the merchants took on the leadership role in sake transactions: they bore sales risks and guaranteed sake quality by putting their trademark or a brand name on a particular sake. Breweries in Nada and Fushimi were compelled to sell their product under merchants’ brands following the simple principle of one brand-one merchant. In 1931, when a brewery in Nada created its own brand name designating an exclusive dealer in Tokyo, the decision was considered astonishing in the industry.\footnote{Nishinomiya S. (1989), p. 208.}

Nowadays these big rural sake breweries are top-ranking players producing over 10,000 kl per year, and are classified as Type 1 breweries. In 2007 the first to tenth largest breweries produced 48.8% of the whole volume of sake in Japan. Type 2 breweries are much smaller in size and primarily supply local markets.

Bulk sake trading among breweries existed for many years and balanced inventory overages or shortages. Before 1944 a liquor tax was levied on an output basis; breweries had to pay depending on the quantity of the production. In 1944, the liquor tax was reformed; liquor tax was levied on the quantity of shipment from factories in the end breweries selling bulk sake were exempt from taxes. From 1944 onwards, as mentioned earlier, big sake breweries increased their purchase of bulk sake from local breweries. Local small Type 2 breweries not only bottled sake by themselves, but also started to actively sell their production to the big Type 1 breweries (this type of contract is called Oke-Uri).

Before the 1980s small breweries were exempt from taxes. Preferences in terms of distribution channels were to sell via big breweries. Small companies were obliged to have a license for producing sake; however, taxes were paid by the Type 1 big breweries where sake was bottled under national brand names. In 1973 sake production reached a peak of 1,766,000 kl,\footnote{Based on the data from Nikkan Keizai Tsushin (2000), p. 6.} and was considered a period of stability for small producers.

At the end of the 1980s the sake industry went slowly into a recession because of the phenomenon of “bubbly economy” in Japan, an economy in which trade takes place in large volumes with a discrepancy between the price and the intrinsic value of the product. Deregulations were applied to many industries and sake distribution channels went through a strong transformation, resulting in the appearance of discounters.

Since the beginning of 2000 the number of sake breweries in Japan has been shrinking. However, local brand names for sake have become more popular. Big groups have started selling their sake to some small breweries who then sell the same sake under the
different brand names—the local brand names of these breweries.

Alternating sake selling and sake buying between Type 1 and Type 2 sake breweries continues to affect the structure of sake supply chains due to regular changes in the taxation system, different level of transportation fees (in general very high in Japan), variety of sake products, and new market trends (see Table 3).
Sake production and classification of sake

Several types of sake exist today (see Table 3 for details) and new consumer trends influence production. Normal and synthetic sakes are created by long-standing traditions and conquered their market due to their low price for the consumers and high profitability for the breweries. In the past many consumers had not been able to distinguish the different types of sake, particularly in lower-priced sake and between traditional and synthetic sake. They are still put on the same shelf and into boxes with similar designs. In 1992 new technology enabled a large brewery to liquefy rice with an enzyme. This technology makes brewing even more cost efficient and lowers the price even further.13

Currently there are two new trends concerning the amount of sake production. Although total sake production has declined, the figures for sake production of specific denominations are constantly growing little by little (see Figure 3 and Table 4). This trend shows a gain in consumers since 2004-2005.

Some breweries have switched completely to producing sweet sake liquors (especially in Kyushu). Other breweries prefer to reorient their production to meet the demands in traditional products.

The history of the Kitayama brewery

The Kitayama brewery is one of the very oldest in the Kansai area, the founder of the Kitayama started to brew sake in 1820. The brewery has existed for more than 180 years as a family business similar to many other local sake breweries in Japan. The company was registered as a SME of sake brewing in 1948. In 1955, a new 25-year-old kurabito entered the brewery, subsequently becoming a toji in 1970. He stayed with the company for 51 years and contributed much to the quality improvement of Kitayama’s sake. This particular toji was incredibly knowledgeable about everything related to the sake brewing process. His influence among tojis within the Noto Toji Association was growing resulting in an enhanced image of Kitayama sake both in quality and reputation. Kitayama honours this toji with a special

Table 3
The classification of alcoholic beverages in Japan since May 1, 2006

<table>
<thead>
<tr>
<th>Effervescent alcoholic beverages</th>
<th>Beer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sparkling liquor</td>
<td>Sake</td>
</tr>
<tr>
<td>Other effervescent alcoholic beverages</td>
<td></td>
</tr>
</tbody>
</table>

| Brewed alcoholic beverages |
| Sake |
| Fruit wine |
| Other brewed liquors |

| Distilled alcoholic beverages |
| Continuous distilled alcoholic beverages (Shochu) |
| Single distilled alcoholic beverages (Honkaku Shochu) |
| Others: Alcohol for material, whisky, brandy, spirits |

| Mixed alcoholic beverages |
| Sake compound or synthetic sake |
| Others: Mirin, sweet fruit wine, powder liquor, miscellaneous liquors |

Source: National Tax Agency http://www.nta.go.jp

Table 4
The volume of sake production by specific denomination

<table>
<thead>
<tr>
<th>2001</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Honjozo-Shu</strong></td>
<td>128,966</td>
</tr>
<tr>
<td><strong>Ginjo-Shu</strong></td>
<td>32,124</td>
</tr>
<tr>
<td><strong>Junmai-Shu</strong></td>
<td>55,785</td>
</tr>
<tr>
<td><strong>Total of sake of specific denomination</strong></td>
<td>246,005</td>
</tr>
<tr>
<td><strong>Total volume of sake production</strong></td>
<td>963,679</td>
</tr>
</tbody>
</table>

Source: National Tax Agency http://www.nta.go.jp

13 For example, 2000 ml of normal sake in a box costs between 749 Yen and 900 Yen in a discount store in 2008.

14 The raw materials used for normal sake and for sake of special denominations are rice, koji, water, brewing alcohol, and others breweries use alcohol, shochu or sake, glucose, saccharine, amino acids, and other fragrances to create a sake compound. It is important to note that for normal sake, brewing alcohol and other ingredients must be under 50% of the weight of the rice.

15 All the three types of sake of special denomination-Honzoujo-Shu, Ginjo-Shu, and Junmai-Shu-are made of rice and koji. Junmai-Shu does not contain brewing alcohol, but the other two types do; brewing alcohol must be under 10% the weight of the rice in Honzoujo-Shu and Ginjo-Shu. The minimum rate of polished rice is 70% in Honzoujo-Shu and 60% in Ginjo-Shu.
sake that he created and that bears his name. A new toji took the reins of the sake brewing process in Kitayama in 2006. Kitayama was a pioneer among small breweries: the brewery started using cooling machines for steamed rice in 1961, bought the first eight big tanks to stock sake, introduced the air shooter in the 1970s, and brought in the automatic rice-koji-making machine in 1983.

Hiroshi Kitayama’s mother was the seventh president of the company after the death of her husband in 1968. In 1971 she decided to sign a contract of Oke-Uri with Gekkaikan, a big famous brewing company in Japan, selling a large part of the Kitayama sake production. This contract lasted for almost 15 years.

Hiroshi entered the family business after graduation in 1978, and became the eighth president of the company in 1991, just when the first signs of weaknesses in the traditional sake distribution channel system appeared. After several years of confusion and high instability, an important decision was made by Kitayama san in 1998. He decided to deal with a special sake wholesaler (see Table 2) in Tokyo.

Kitayama has been lucky to have had such talented toji during the last half century. The toji is almost equal to the president of the kuramoto in all aspects of brewing; their relations must be grounded in total mutual trust. Nowadays, employing toji means keeping traditions, brewing sake following old customs, which has become rare. Kitayama san is keen on keeping the tradition of the toji, on the one hand, but he constantly wants to modernise the sake production on the other hand.

**The Kitayama brewery future?**

The Kitayama brewery possesses its own brand name (see Table 4), producing a small amount of normal sake for their local customers and traditional sake of specific denomination types (see 6 and 7 in Table 2). Moving to a natural biological sake requires focusing more on the raw materials and rice quality. At present, Kitayama san considers that it is very difficult to make sake from all organically grown rice.

Kitayama has a strong reputation for its exceptional quality in all their sake products. For five consecutive years since 2002 (nine times in all categories) Kitayama has won the golden prize of the National New Sake Awards of the National Research Institute of Brewing. It is the biggest nationwide sake competition since 1911. For example, 957 breweries participated in BY 2007; only 255 of them got golden prizes.

Kitayama san relies mainly on the contracts with wholesalers: almost half of Kitayama’s production goes to the local wholesaler, all of whose activity is conducted within one prefecture. They also have a contract with a sake wholesaler in Tokyo and use every opportunity to participate in exposition salons, local and national sake-tasting events, and welcome sake tours.

In 2008, 7-11 started a new business of selling alcoholic beverages through the Internet. Consumers can order online and then can receive their ordered goods at any 7-11 shop all over Japan without transportation fees. Although the Kitayama brewery was asked to join this new system, Kitayama san decided not to get into this new Internet venture. Kitayama’s sake is of exceptional quality and what is found in the 7-11 stores has an image of ordinary goods, which would lose Kitayama’s uniqueness. Kitayama san thinks “I understand the potential demand of Internet sales. On the contrary, I know the importance of the merchants, dealers who understand what our sake is and can then explain that to the consumer. Person-to-person selling is the way our distribution channel is organised; it is the source of our competitive superiority. We have already sold our sake through this dealership. I feel discomfort in selling sake through Internet sales where the goods are sold automatically without any effort.”

In the sake market, some breweries focus on mass production and low prices; others put their energies into selling in the huge city markets like Tokyo because of their reputation for high quality and high price sales in high repute. Now local breweries like Kitayama, which produces local sake for local customers, is at a crossroad.

The only dream of Kitayama san is to preserve the brand name from breaking; he wants to plan for 10 to 20 years ahead. Being the president of a company, Kitayama san is obliged to think about yearly management and profits. However, he has to perform his duty of handing down the traditions of the kura to the next generation, as well as honouring what the ancestors did. Kitayama san thinks ‘to keep the balance between running the enterprise and preserving family business is a real challenge.’

16. For 2009, the exchange rate is 1,000 Yen = 7.5 euros
The consumption of Japanese sake has been decreasing since its peak in 1974. In particular, as is the case with Kitayama, the decline of local sake breweries is even more serious. To tell the truth, I myself am one of these kuramoto and am wondering how to manage our kura.

Some of the reasons for the decline in Japanese sake have been pointed out, such as higher costs compared of other alcohols due to the restriction on imports of its raw material (rice) and a myth that sake contains high calories. Above all, the changes in supply chains. Moreover, the other obstacle for those kuramoto such as Kitayama is, I believe, the traditional sense of value of Japanese sake. Following, I will introduce two facts that demonstrate this traditional sense.

The first concerns Japanese sake tasting. The tasting process of sake and wines are the same: look at its color first of all, swirl the glass gently, smell with the nose, then taste with the mouth. However, when I started studying wine tasting in order to start wine importing 15 years ago, I was surprised with their differences. That is, sake tasting is conducted to find its faults. Smells of over maturity, deterioration, yeast, are the smells that should not actually exist. However, smells of vanilla, red fruits, and animals are those expressing virtues of wine aromas. In short, sake tasting is evaluated by deducting points, and wine is evaluated by adding points. There is only one best in a point-deducting system whereas there are many top levels in a point-adding system.

The second fact that indicates the traditional sense of values is that many flagship sakes of most kuramoto are made of yamadanishiki, which originated in Hyogo. Yamadanishiki is a variety of rice considered 'king' of sake rice. Indeed, yamadanishiki can make a good quality sake with rich aroma and full-round taste. Also, large and hard grains of yamadanishiki can be well handled by inexperienced toji, and experienced toji can make perfect sake with it. Especially the top class of yamadanishiki cultivated in a special area in Hyogo is by far the most exceptional in quality. However, this means that anybody can make a quality sake with little difference among the products. Eighty-five percent of kura sake selected for participating in the
National New Sake Awards in 2008 was made from yamadanishiki.*

It is difficult for a small local kura to compete successfully against a larger company, so it is necessary for them to respect their sense of specialty in a niche and to challenge the market daringly. After a period of rapid expansion, Japan is now in an era of stable growth. Each person has a different preference for the style of sake. Kuramoto like Kitayama will develop a new way when they learn to respect these various aspects of value. They should aim not to create sake with no faults but to create sake that can impress people. In fact, people are touched not only by the tastes and the aromas of sake, they are also affected by those intangibles behind it, such as history, its natural aspect, and a maker's passion.

Supply chains never convey just merchandise; they offer information and a company's passion, which inspire impressions. These intangible elements are, however, expressed differently depending on which channel is used. Therefore, when Kitayama san thinks of the sake business, it is essential for him to evaluate the new marketing strategies and channel choices to be successful.

I spoke with the director of a major sake brewery, who said the following: ‘I chose this company 40 years ago because the sake of other companies did not taste good to me; the sake-brewing technologies varied from kura to kura. In the last 40 years, sake-brewing technologies have developed greatly. It is impossible to find sake of poor taste in the market, which means that growing the business is even more difficult.’

In the era of post-WWII growth, an average quality with good cost performance was the main priority of sake makers. Now any kura can make average sake based on the developed technology, so it is important for them to create new senses of value surrounding Japanese sake and to spread them widely. When a supply chain that can convey this new sense is found, Japanese sake will regain its shining potentials. I expect Kitayama san's new strategy and efforts will bring about new prosperity for his company.