

LES HENOKIENS CASE COLLECTION

March 14, 2016

TETSUYA O'HARA



GEKKEIKAN SAKE

GEKKEIKAN

Quality, Creativity, Humanity

Gekkeikan Corporate Philosophy

Haruhiko Okura, the representative director and president of Gekkeikan and the fourteenth successor behind world's largest sake manufacturer and distributor, visited Gekkeikan's U.S. subsidiary in Folsom, California, during his overseas business trip and kept himself busy working. Once his work was done for the day, he had dinner at his hotel and took some time to relax. Haruhiko is an avid fan of soccer, and coincidentally the TV in the lobby was showing a major-league match. Watching the quick defensive and offensive moves made by the players, Haruhiko thought of the tumultuous sake industry and toyed with a new management vision for the future of Gekkeikan.

Japan has a unique gift-giving culture where people give gifts during certain seasons and at certain events, and as it is deeply involved in this culture, the sake industry has been able to avoid fatal blows of the macro-economic effects. Also, Japan's sake industry is shielded from direct impacts of foreign exchange fluctuations as all raw materials are sourced in Japan. Furthermore, the rice rationing program sponsored by the Japanese government from 1939 to 1969 kept the sake demand outstrip the supply and thereby protected the sake industry until the 70s when the diversification of alcoholic beverage market accelerated. As this market subsequently opened to a diverse range of alcoholic beverages, however, beer, wine, whiskey and *shochu* entered the market which had been dominated by sake, and the share of sake declined.

Haruhiko became president of the company in 1997 at the time Japan's sake shipments began falling rapidly. The country's sake market was reduced by half over the following decade, so Haruhiko downsized his company and improved its efficiency in order to remain profitable despite slumping sales.¹ In his role as president, Haruhiko shed the number of employees from 900 to slightly under 500. During the same period, the company's sales fell from 53 billion yen to 28 billion yen, but current profit remained between 500 million yen and 1 billion yen on a yearly basis.

As he considered the future of the company, Haruhiko came up with four business-strategy themes. The first was to deeply cultivate the market for and expand the company's sake business. Although the sake market as a whole will unlikely grow in Japan, Gekkeikan can quickly anticipate the needs of consumers and establish a high-quality, multi-variety small-lot production system so as to develop the business faster with flexibility and resilience. The second was to strengthen and expand the business of alcohol beverages other than sake. Gekkeikan imports foreign beer and wine to the Japanese market, but these imported beverages account for less than 5% of the company's total sales. Consumers' tastes in alcoholic beverages are becoming more diverse, which makes it an absolute necessity for Gekkeikan to expand its lineup just sake. Gekkeikan also has an advantage here, in that it can utilize its existing sake-distribution networks. The third was to drive the overseas business. The Japanese food boom in the U.S. and other countries is expected to continue for some time, and there is still room to expand the global sake market. Gekkeikan wants to profit from its pioneer status in the U.S. market and apply the know-how gained from U.S. business to other countries. The fourth was to develop and roll out new businesses not necessarily related to sake. Gekkeikan had already tried an unknown territory by manufacturing and selling skincare creams made from sake-making materials, but the company couldn't produce result and withdrew from that business. Gekkeikan is not a stranger to M&A, so although this is one promising area, Gekkeikan is still in the trial-and-error stage.

Haruhiko, the fourteenth head of the family, must exert his skills and expertise to grapple with these four business-strategy themes and successfully pass his family business to the next generation.

History of Gekkeikan

In 1637, the Founder Jiemon Okura left his home in Kasagi in the southern part of Kyoto Prefecture and moved to the Fushimi district of Kyoto that was prospering as a castle town, post station town and port town, and started a brewery called "Kasagiya," making a brand of sake which he named "Tama-no-Izumi." He transported his sake to Edo (current Tokyo) on small barrel cargo vessels and sold in large quantities. Unlike other sake brewers in Nada facing the ocean, his was a small local business operating in the inland area of Fushimi, Kyoto.

In the eighteenth century, the sake brewers in Fushimi were producing more than 2.8 million liters of sake and made Fushimi a renowned sake producing region. Fushimi fought against Omi, another sake region that emerged and became popular in the eighteenth and nineteenth centuries, and at the end of the Shogunate era, brewers in Fushimi saw their facilities destroyed during the Battle of Toba Fushimi, and many were forced to close. However, Gekkeikan survived and welcomed the Meiji restoration of imperial rule.

Gekkeikan began to modernize under the reign of Emperor Meiji. In 1891, the company introduced "Western bookkeeping" while keeping the old-fashioned account books. With the new bookkeeping system, Gekkeikan was able to clearly understand the cost of materials, cost of manufacturing, operating and other expenses as well as income, whereby it could balance and settle accounts. This helped Gekkeikan make rapid progress in the Meiji era.

The company trademarked its "Crown of Laurel" logo in 1905 as a symbol of glorious victory, and it began using *gekkeikan*, the Japanese word for "crown of laurel," as the name of its sake brand. It drew attention as a plush sake brand while most others based their sakes' names on places. In 1909, the company established a research institute and introduced science and technology into sake brewing. Despite the widespread support of the barreling method, which lasted until the dawn of the nineteenth century, where the sake brewer placed sake barrels in front of the store and poured the liquor into carafes for sale, Gekkeikan focused on bottling sake and invented a new selling method using bottled sake free from preservatives. It also succeeded in improving the quality of sake.

Ekiben boxed train lunches emerged in 1885 at the railway stations in Japan, becoming popular among salaried workers. Their popularity grew rapidly from 1906, when the country's private railways were nationalized. When the railway companies realized that the purchasers of *ekiben* wanted to drink sake with their meals, they began selling sake at key stations across Japan and created a new market for the drink. In 1910, Gekkeikan developed what was called the "Okura Choko-tsuki Bottle" and registered it as a utility model for rollout in this new market. The novel bottle, which consisted of a carafe and small cup, surprised travelers and earned support as a new, functional container and a unique way to drink sake. Over the following three years--from 1910 to 1913--the percentage of sake sold at railway stations grew from 4.4% to 15.2% of Gekkeikan's total production volume, and the railway-station sake market became very important to the company. The sale of sake at railway stations boosted the sake sales of the company and made Gekkeikan a common name.

Gekkeikan began airing TV commercials in 1956. The company was among the first advertisers to explore the new media called television, and soon viewers started to see Gekkeikan commercials during nighttime baseball games, which earned high ratings. Gekkeikan produced ads for various media, often featuring popular celebrities, and gradually its name recognition rose.

Gekkeikan became the sake industry's top producer by volume in 1961, producing more than 18 million liters. During the same year, Japan's first four-season brewing system, capable of making sake throughout the year, entered operation at Gekkeikan.

Gekkeikan established a U.S. subsidiary in Folsom, California, in 1989. It began to operate a sake brewery and cellar there, utilizing the four-season brewing method that was successful in Japan, along with a new brewing method and other techniques. Gekkeikan Sake (USA), Inc., having its office and manufacturing facility on 36,000 square meters of land, became a new pillar of Gekkeikan business by exporting to Brazil, Germany, France, the Netherlands and other European countries in addition to the U.S. and Canada. Gekkeikan's U.S. business expanded strongly, thanks to the Japanese food boom, and production volume rose from just 1 million liters annually in the first half of the 1990s to the current figure of nearly 6 million liters yearly. Gekkeikan Sake (USA) accounts for 10% of total Gekkeikan sales.

To tap the new market of large retailers that emerged following the deregulation of alcoholic beverage sales, Gekkeikan released "Tsuki," a paper sake pack, in 1997. Due to its affordable price, Tsuki found its way onto the shelves of supermarkets, convenience stores and other large

retailers and into the baskets of young shoppers. Today, Tsuki is a core product of Gekkeikan. Sales of Tsuki have grown so much that it currently accounts for 45% of the company's sake sales.

In 2011, Gekkeikan established Gekkeikan (Shanghai) Trading Co., Ltd., in order to establish the local foundation on which to develop the Chinese market. The company also purchased food-related companies such as Kinrei, Fujisei and Takato so as to expand its portfolio, and currently it is interested in developing new businesses unrelated to sake. Considering that the current health trend is not a transient one but a long-term movement based on a major demographic shift characterized by falling birth rates and aging society, Gekkeikan has also released major products targeting health-conscious consumers, such as "Zero Sugar" sake and the non-alcoholic "Gekkeikan Free."

Gekkeikan's Corporate Philosophy

Gekkeikan has a unique culture called the "Okura Spirit," which has been handed down through generations orally without being a documented company philosophy or motto.² Compiling the items that constitute the Okura Spirit, along with other ideas that have made Gekkeikan what it is today, the "Basic Philosophy of Gekkeikan" was established as a documented maxim to match the new era. Drafted by an in-house team led by Haruhiko, the Basic Philosophy was announced in 1997.

1. Quality

Supplying competitively priced products of world-class quality guaranteed to satisfy customers

Given the establishment of "quality first" as a fundamental ideal, from early on Gekkeikan attached importance to academic techniques and hired many engineers with expert knowledge, focusing on the management of existing techniques and study of new approaches. Particularly, the company's commitment to investing unsparingly to make high-quality sake is shared by the generations of Gekkeikan's top managers from the eleventh head of the family, Tsunekichi Okura--dubbed the Father of Resurgence--until the current family head Haruhiko. To be specific, the company sold preservative-free sake, built sake breweries with cooling facilities, established the four-season brewing system, abolished the use of brewer's sugar, developed the dissolved-rice brewing method, began producing overseas, tackled and solved key challenges that emerged in each of various periods, and entrenched the "quality first" ethos. Among others, the four-season brewing system became an essential part of Gekkeikan's mass-production of high-quality sake, triggering a great change in the company and the sake brewing industry as a whole.

2. Creativity

Promoting innovation in both management and technology through the constant application of creativity and a willingness to probe new possibilities

The following are the words of Haruhiko: "Tradition means innovating. We have 380 years of tradition because we have innovated continuously."³ Gekkeikan has repeatedly taken on new challenges and changed itself to meet the needs of the times. Instead of becoming overly obsessed with results, Haruhiko valued processes and implemented an environment that nurtures creativity.³ For example, he established the Idea Awards as a means to encourage employees to create and contrive, recognizing those who have brought forth brilliant ideas and excellent achievements. In addition to programs designed to motivate employees, efforts are made to increase communication among the departments. There are cross-functional committees and meetings attended by people from the Manufacturing and Sales divisions, where various matters are discussed in detail by multiple departments. The Three Division Directors' Meeting (also called the Managing Directors' Meeting) is a venue in which the directors of Administration, Sales and Manufacturing share information about various matters. The Quality Meeting is where the persons responsible for product planning, research and development, technology management, brewing, bottling and other aspects gather to discuss opinions and share information. The Public Relations Department also edits and issues the company's periodic newsletter, called *Sakamizu*. Each issue starts with Haruhiko's words to convey the message from the management, and features news and articles explaining what the company is doing, so that all departments can understand each other, gain knowledge and think more creatively.

3. Humanity

Working to boost the knowledge and skills of our employees and helping them to make the most of their strengths and individuality to lead fulfilling lives

Gekkeikan has nearly 140 individuals, or about 30% of all employees, who have worked for the company 30 years or more. Thus it is long-lasting company with several hundred years of history without a structure to patiently develop people within the company and retain their contributions for many years.⁴ Gekkeikan has also actively enhanced employee welfare, ensuring a sound work-life balance for its employees by improving their living environment in the forms of dormitories, company housing, etc., as well as by making other improvements. Additionally, it has revised many old systems such as employee savings schemes, pensions, insurance, health management, etc., and introduced systems in alignment with the new era.

Gekkeikan introduced a unique interview method in 1989. The employee and supervisor have a discussion in order to set the employee's specific target for the year. Subsequently, the employee meets with the supervisor three times during the year to present and discuss the employee's self-evaluation and the supervisor's evaluation in order to help the employee develop his or her competency. The initiative, motivation and achievement thus demonstrated and verified in this process are reflected in the employee's performance reviews. In 1990, Gekkeikan launched the "Public Qualification Assistance System" to encourage its employees to obtain public qualifications, and in 1997 the company made all employees eligible for tuition reimbursement at business schools in Japan based on an open application system. It also improved the Self-Development Support System, which was designed to empower motivated employees with a strong desire for self-development.

Making Further Leaps Forward

To make his job easier, Haruhiko must develop a strategic plan that clearly states the priorities under the business-strategy themes. In April 2014, a group of 20 MBA students from the Pepperdine Business School, whose main campus is located in California, visited Gekkeikan and met with Haruhiko. The students were impressed by how Gekkeikan's basic philosophy was reflected in every part of the company's operation, but they also commented that there was room for improvement in the manner of presenting Gekkeikan's quality message. They suggested building marketing strategies, especially for youths in Japan and the overseas market, such as updating the website to make it visually appealing, intuitive, stylish and functional, effectively utilizing social media to generate word-of-mouth interest, and proposing different ways to enjoy sake in response to the increasingly diverse food culture. These ideas relate to all four of the business-strategy themes identified by Haruhiko, but they also require close collaboration throughout the organization.

Keiichi Okura, Haruhiko's father, said this in a *Nikkei Shimbun* article profiling his career: "I also regret not removing the barrier between Manufacturing and Sales. With its talented engineering team, Gekkeikan has led the industry by innovating in brewing technology and developing excellent yeast, among other things. Regrettably, however, the feedback from salespeople who were directly witnessing the changing needs of consumers and markets on the front line of sales, were not fully heard by manufacturing people who were reforming the brewing technology and seeing results. As the company's president, I was responsible for all of that. I was reluctant to talk to Manufacturing."

Learning from his father's mistake, Haruhiko has worked to improve communication since his appointment to the top job, creating various venues for cross-organizational discussions within the company.⁵ As part of this effort, he has built an organizational structure that supports proposal-based selling to large retailers. However, the market is changing dynamically and he must introduce more ideas so that the company will continue to run flexibly and nimbly.

As he watched a major-league soccer game on the TV in his hotel lobby, Haruhiko superimposed his four strategic themes on the coaches, who paced energetically along the sidelines. Which of these themes should be given priority, with the three concepts of the Basic Philosophy being the axes of corporate management? Are the current internal organizations appropriate, or is there room for improvement in terms of a desired environment? He asked himself those questions and, while listening to the cheers resounding in the soccer venue, his mind was already on the video conference scheduled for midnight with the head office in Japan.

Endnotes

¹ Haruhiko Okura, President, interview, October 23, 2015

² Haruhiko Okura, President, interview, April 25, 2012

³ Haruhiko Okura, President, interview, October 23, 2015

⁴ Haruhiko Okura, President, interview, October 23, 2015

⁵ Haruhiko Okura, President, interview, October 23, 2015

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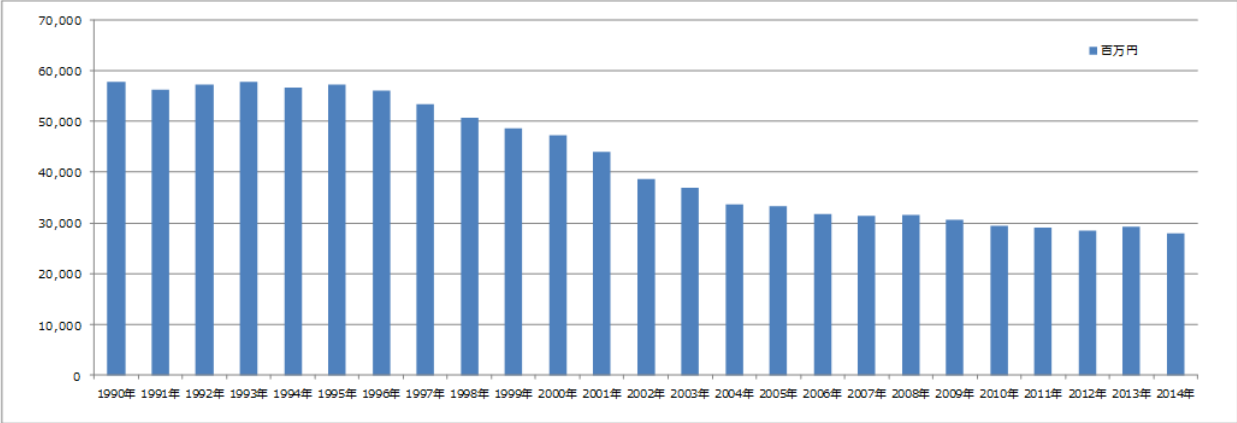
Sake culture in Fushimi, Kyoto • Shinji Tanaka

Doshisha Business Case • Gekkeikan • Mitsuo Kawaguchi, Masayo Fujimoto

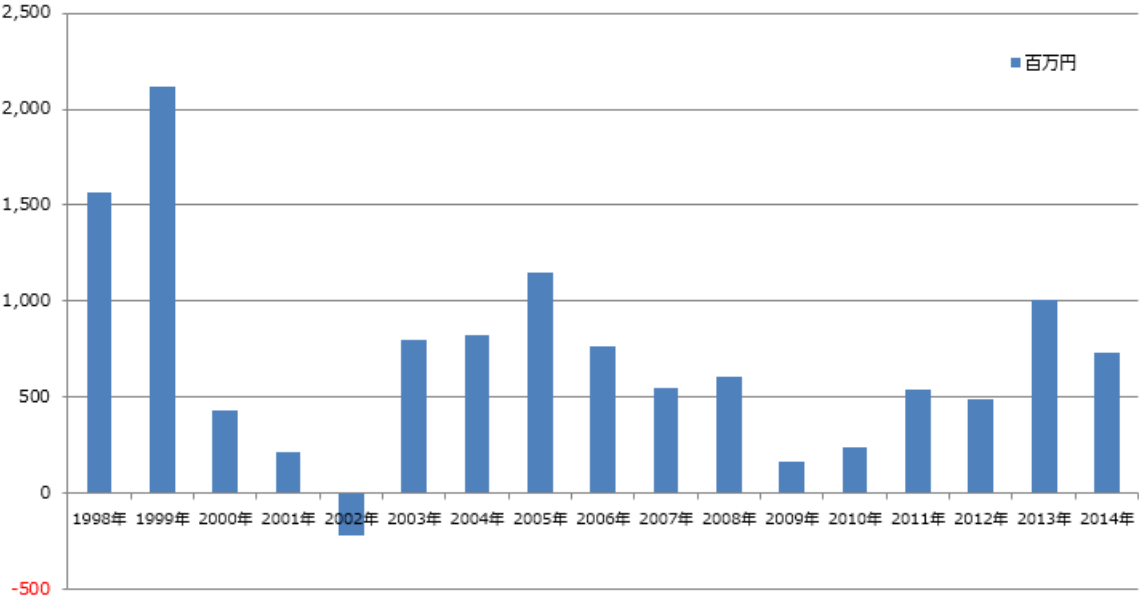
Gekkeikan web site • <http://www.gekkeikan.co.jp/>

Exhibit 1 GEKKEIKAN group revenue and profit

Revenue: Million Yen



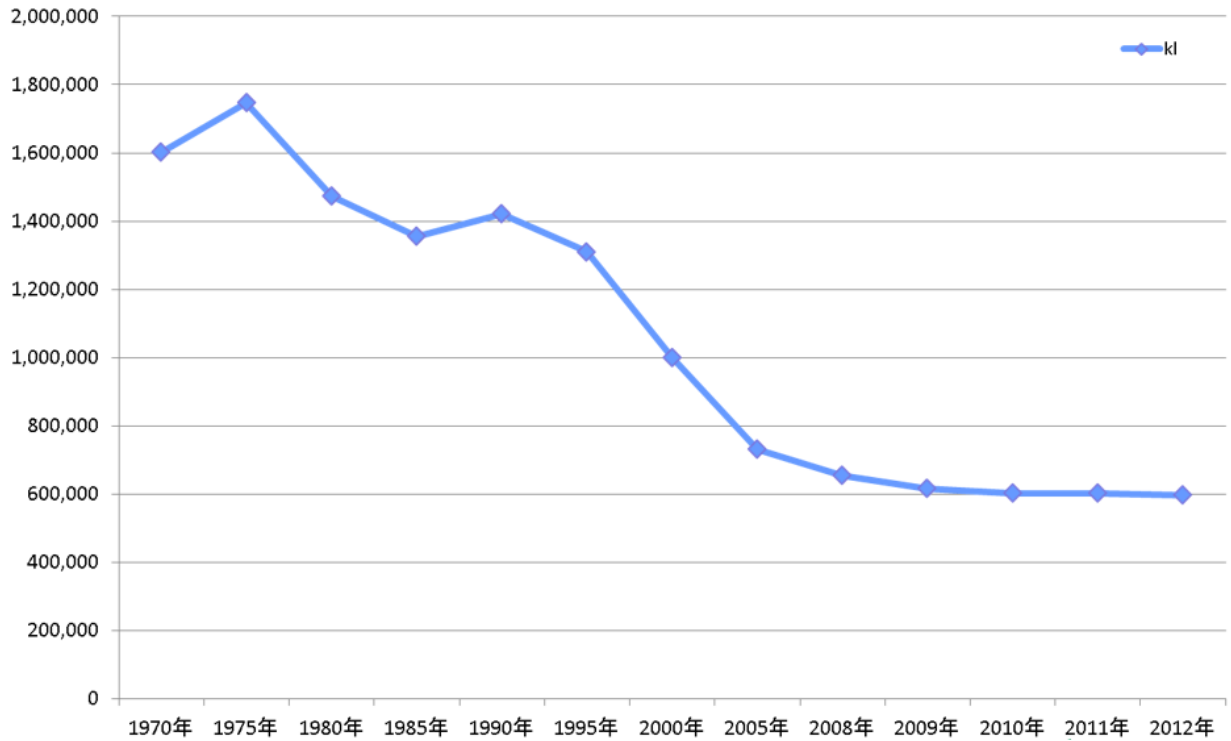
Current profit: Million Yen



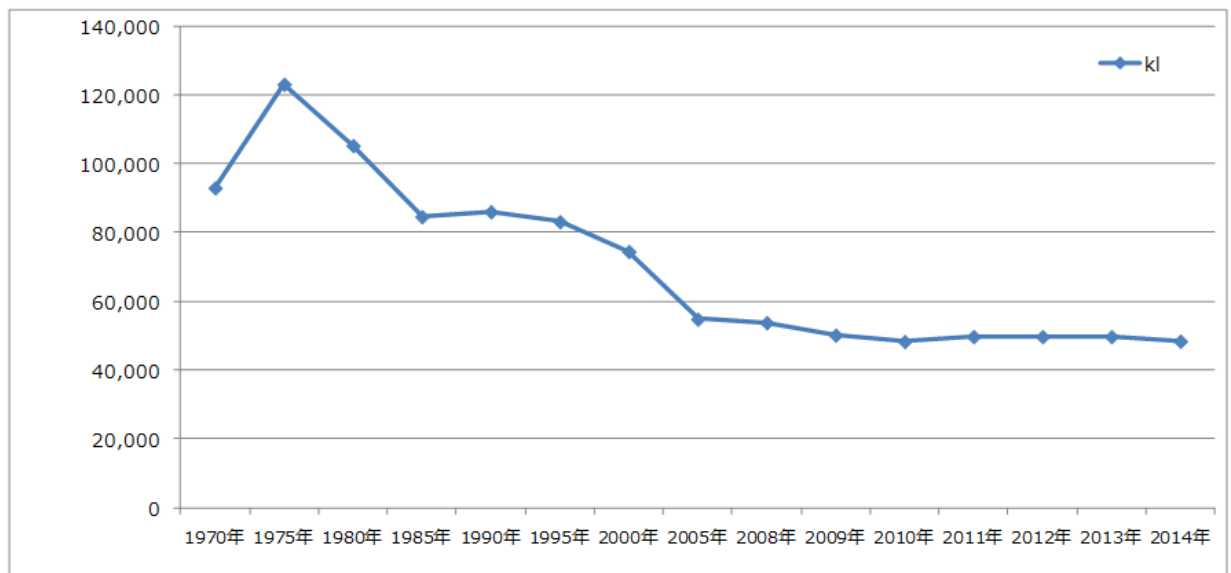
Source: GEKKEIKAN internal company documents

Exhibit 2 Sake market and GEKKEIKAN sake production in Japan

Shipments of sake in Japan : Unit in Kilo Litter (KL) Data source : National Tax Agency Japan



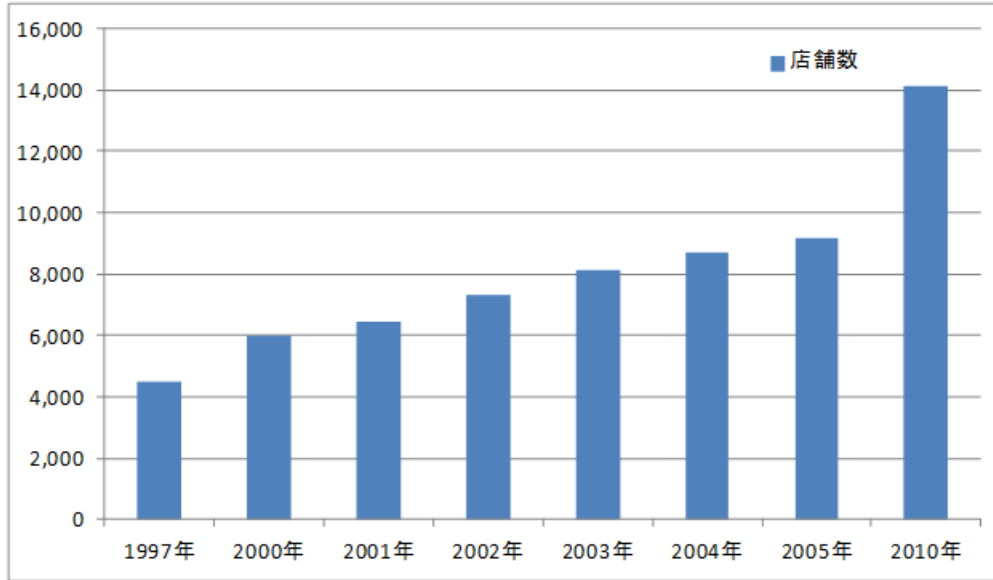
Shipments of GEKKEIKAN sake in Japan : Unit in Kilo Litter (KL)



Source: GEKKEIKAN internal company documents

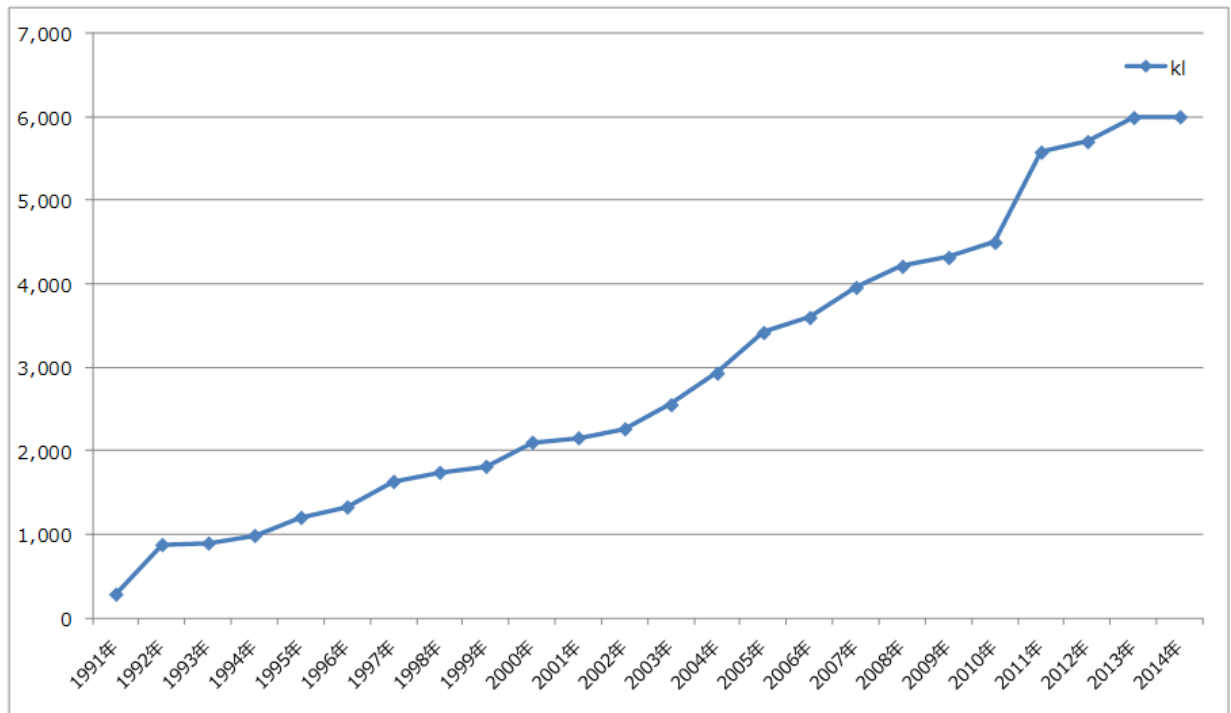
Exhibit 4 US sake market and US GEKKEIKAN sake production

Number of Japanese restaurants in the United States



Source: 1995~2005 『Japanese Food Trade News』 (Ikezawa Food Specialists Inc.), 2010, JETRO

Shipments of US GEKKEIKAN sake : Unit in Kilo Litter (KL)



Source: GEKKEIKAN internal company documents

Exhibit 5 GEKKEIKAN photos



14th generation owner and President, Haruhiko Okura



GEKKEIKAN HQ in Fushimi, Kyoto



GEKKEIKAN Factory and R&D center in Fushimi, Kyoto



US GEKKEIKAN factory in Folsom, California

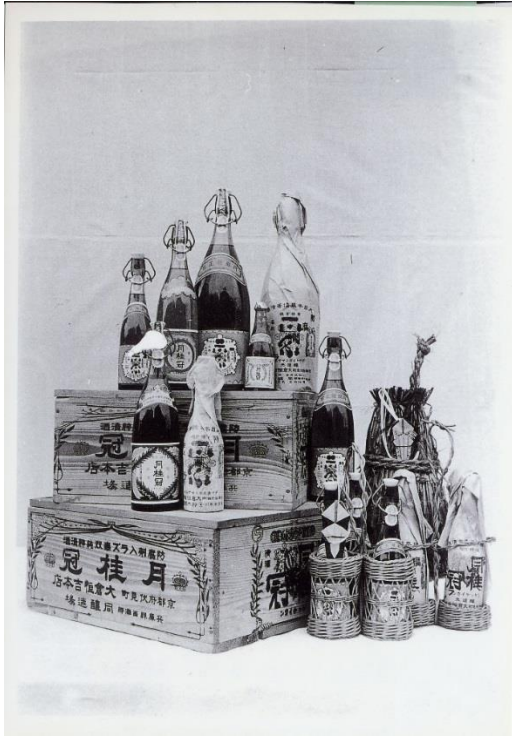
Source: GEKKEIKAN internal company documents

Exhibit 6 GEKKEIKAN historic photos in late 19thc – early 20th c



Source: GEKKEIKAN internal company documents

Exhibit 7 GEKKEIKAN products



Okura Choko-tsuki Bottle

Product lines from late 19th century through early 20th century



Current product lines

Source: GEKKEIKAN internal company documents

Exhibit 8 GEKKEIKAN TV CM



TV CM in 1950s



TV CM in 1980s



TV CM in 2000s



TV CM in 2010s

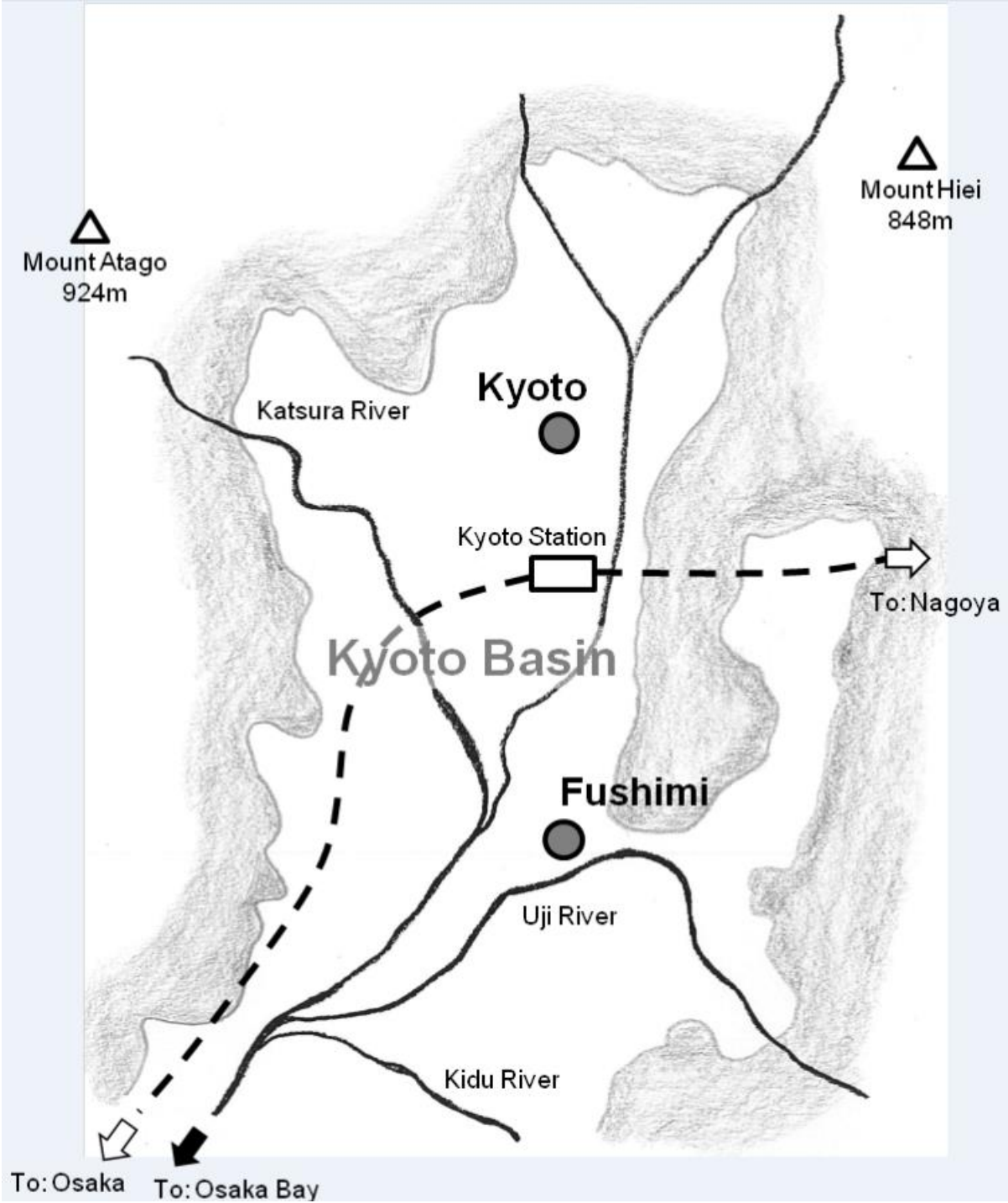
Exhibit 10 Organizational structure

GEKKEIKAN SAKE COMPANY, LTD. ORGANIZATION CHART

<p>THE BOARD OF DIRECTORS — (MANAGING DIRECTOR'S MEETING)</p>	CORPORATE MANAGEMENT DIVISION	—	GENERAL AFFAIRS DEPT.
			GENERAL ACCOUNTING DEPT.
			INFORMATION SYSTEMS DEPT.
	SALES DIVISION	—	SALES PROMOTION DEPT.
			INTERNATIONAL DEPT.
			LOGISTICS DEPT.
			NATIONWIDE SALES DEPT.
			NORTH JAPAN SALES DEPT.
			EAST JAPAN SALES DEPT.
			CHUBU SALES DEPT.
			KINKI SALES DEPT.
			CHUGOKU-SHIKOKU SALES DEPT.
			KYUSHU SALES DEPT.
	PRODUCTION DIVISION	—	RESEARCH INSTITUTE
			PRODUCTION MANAGEMENT DEPT.
			TECHNICAL DEVELOPMENT DEPT.
			BREWING DEPT.
		PRODUCTION DEPT.	

Source: GEKKEIKAN internal company documents

Exhibit 11 Map of Fushimi, Kyoto



Source: GEKKEIKAN internal company documents

Appendix

Four-Season Brewing

Gekkeikan owes a lot to its four-season brewing system in building the foundation for the company's "quality first" culture. The primary motive behind the establishment of the four-season brewing system in those days (before 1961) was the need for a more productive brewery that could operate 24 hours a day, 365 days a year to support the constantly increasing demand for production. The second reason was the rapidly declining population in farming and fishing villages, as the Japanese economy made rapid progress after the war and its social and industrial structures were subjected to significant change. In light of this situation, a shortage of master brewers and skilled brewery workers was fully anticipated and it was evident that the master-brewer system had to change radically. Particularly, the industry had to enable sake making by regular employees. The third basis was that the traditional brewing system, in which sake was made only in winter, would inevitably cause a wide variation in the storage periods of sake at different points of sale throughout the year, resulting in varying sake flavors depending on when the sake was sold. To address this issue, there was a strong need to produce sake with stable quality throughout the year. The fourth rationale was the need to establish a year-round brewing system that would meet the desire of Japanese to drink freshly brewed sake and answer the rapid change that was happening in their food preferences. Collectively, these factors brought forth the four-season system.

The development of new technology for brewing throughout the four seasons was met with great difficulty. Japan's summer is very humid and hot, and microorganisms in the air increase during that season. To ensure the same environment as winter brewing, the air within the brewery must be cooled, dehumidified and sterilized to the same condition as in winter. This was by no means an easy achievement. The Okura Sake Brewing Research Institute was established in 1909, with Tsunekichi Okura, the eleventh head of the family, and research and development utilizing the advanced science available at the time was conducted there. Focused research was conducted on temperature- and bacteria-control technologies that were indispensable to the achievement of four-season brewing. Subsequently, in 1927 Gekkeikan built a sake cellar called *Showagura*, made of ferroconcrete and complete with a cooling system. In about 1955, the company began its development of sake-brewing machinery. Such mechanization and automation of manufacturing processes shortened the cycle time and cut labor. As a result the brewing process became controllable, which led to the company's success in building an environment for high-quality brewing throughout the year.