Amid Passion Without Profits, Why Sapporo Is Dropping Anchor

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Japanese brewery Sapporo Holdings is closing San Francisco's Anchor Brewing, acquired in 2017, ... [+] GETTY IMAGES

A little over five years ago, Japanese brewery Sapporo Holdings made big news when it paid $85 million for San Francisco-based Anchor Brewing Company. Sapporo said it would keep Anchor in San Francisco, preserve its "rich legacy and tradition and invest in its bright future." There was a lot to drink to, or there seemed to be.

Sapporo celebrated Anchor's 125th birthday in 2021 and rolled out new products, a new look, and logo. But a few weeks ago, Sapporo said it is dropping Anchor, shutting down that business (with only 61 employees, about half of what it had just a few years ago) after efforts to sell it. Why the about-face?

Sapporo blames a pandemic, inflation, and tough times. And rising freight and materials costs, rent, labor, taxes, and fees certainly didn't help. Anchor workers unionized and Sapporo, founded in Japan in 1876, said sales continued to slip. But what happened at the brand famous for Anchor Steam beer and Christmas ale, among others? The goal had always been growth. How had it gone so quickly from high hopes to the end of the road?

High hopes

Acquisitions are a time-honored way to grow businesses, but in many ways, Anchor may be the story of an acquisition gone awry. Sapporo, in 2017 acquired Anchor, "in order to expand our beer business in the U.S. market" and continues to aim at American growth. As Anchor declined, however, Sapporo on August 31, 2022, closed on the $165 million acquisition of Escondido, Calif.-based Stone Brewing, taking over what Brewbound.com calls one of the top craft breweries by volume in the U.S. in 2021. Sapporo shifted strategy: It would now focus on Stone while shedding Anchor.

"Value is still there for larger brewery groups to acquire unique, smaller craft breweries to bring them into their portfolio and expand their offerings and customer base," David Oksenhorn, a director and subject matter expert regarding breweries at Marcum, told me. "But they need to be careful when doing this."

Despite Sapporo attributing Anchor's shutdown to factors like Covid and inflation, the craft beer ... [+] GETTY

A bullish beer market

While Sapporo blames the Anchor shutdown on macroeconomic factors like Covid and inflation, recent industry numbers aren't so gloomy. Small and independent brewers produced 24.8 million barrels of beer in 2021, up 8 percent, according to the Brewers Association. Craft's overall beer market share by volume grew to 13.1% from 12.2% the prior year. "Craft brewer sales rebounded in 2021," according to Bart Watson, the association's chief economist.

Competition, however, sharpened as Anchor in 2021 ranked 47, well behind Stone Brewing at 18, among all brewers, according to the Brewers Association. Anheuser-Busch ranked first, followed by MolsonCoors, Constellation, Heineken USA, Pabst Brewing Co., and Diageo. Branding in the brewing business is just as crucial as in any other, and Anchor's brand was shrinking.

"In order to be successful, not only does the brewery need to have a good product," Oksenhorn added. "Either the product or the branding has to be unique."

Acquisition About faces

Acquisitions can be a great way to grow a company in all industries, including brewing. The same year Sapporo acquired Anchor, Coronado Brewing bought Monkey Paw, Heineken bought Lagunitas and Lagunitas bought Short's, while New Belgium bought Magnolia. And that's just a start. AB InBev that year bought Wicked Weed; Constellation acquired Funky Buddha; Castanea Partners bought The Bruery, and Valterra Partners acquired Lord Hobo.

"One example that for now looks like it is working out is Montauk Brewing Company, which was more recently purchased by Tilray Brands," Oksenhorn continued. "For the time being, their core flagship beers, branding, and overall look have not drastically changed, though their reach has significantly increased."

Not every brewery pairing has led to future celebrations as greater distribution leads to bigger sales. After acquiring Mexican beer brands Corona and Modelo, Constellation in 2015 acquired Ballast Point for $1 billion. Constellation, in 2019, said it was selling Ballast Point to Chicago-based brewery Kings & Convicts at a price that Brewbound.com estimated at under $100 million.

"The decline in the brand (Anchor) is reminiscent of when Constellation Brands STZ +0.7% purchased Ballast Point for a large sum and then ultimately sold it for a big loss," Oksenhorn added.

In a press release, Sapporo said Anchor generated $12 million in sales in 2020 and 2021 and only $10 million in 2022. Sam Singer, an Anchor Brewing spokesman, told the Los Angeles Times the pandemic, inflation, and "a highly competitive market left us with no option but to make this sad decision to cease operations."

Anchor's Acquisitions

Anchor's story has been one of survival for 127 years, prompting many to view its shutdown as a watershed moment. It was founded in 1896 by Ernst F. Baruth and Otto Schinkel Jr. in Potrero Hill, San Francisco, Calif., becoming famous for its Steam-style beer. Anchor suspended production during Prohibition, survived an earthquake and fires, and briefly closed in 1959 before several acquisitions, even trademarking its Steam beer.

"I've always personally known Anchor Brewing for their Steam beer," Oksenhorn continued. "That was really their niche/signature origin."

The Griffin Group, an investment and consulting company focusing on alcohol, bought Anchor in 2010, which Sapporo acquired in 2017. Covid hit in 2019, the same year workers voted to unionize. Anchor became the first unionized craft brewery in the nation, approving a three-year contract in 2020. But something else may have been pivotal in determining the brand's future. A rebranding took place which soon lifted eyebrows, as much as, and possibly more than, beer mugs.

Sapporo attempted a brand refresh for Anchor in 2021, introducing new logos, labels, and products, ... [+] GETTY IMAGES

Something new, something old

In 2021, Sapporo sought to refresh Anchor's brand and expand its offerings, rolling out a new logo and labels, prompting backlash from those who loved Anchor's tradition and history. "Unfortunately, I think they made some decisions that hurt a lot more than they helped," Garrett Kelly, an Anchor employee from 2014 to 2020, told the Los Angeles Times.

Sapporo believed they needed to expand offerings to grow sales, rolling out hazy IPAs and a colorful new look as well as new products. "It looks like something you'd ask AI to generate for you," Kelly said, "and it speaks to a fundamental, strategic misunderstanding" of the brand.

Oksenhorn said it's important to stay true to a brand's identity to retain customer loyalty.

"The key here seems to be that, while you may be able to introduce new products and make some changes, you can't overhaul a brand to the point where it no longer resembles what people liked from the start," he said. "You need to be consistent with the offerings people liked from the start, though they may not always be most cost-efficient at a national level even when you start scaling up exponentially."

He also added how customer retention and expansion of customer base issues are compounded due to the current state of the industry. "The industry is also experiencing periods of minimal or no growth with even some declines in certain aspects as craft drinkers look beyond beer beverages to hard seltzers and canned cocktails," he added.

Sapporo said it sought to perk up sales only to find them slump. Motorists outside Anchor's Brewery shouted, "Keep brewing." The passion was still there; the profits weren't.

Sapporo shifts focus

While Sapporo may be dropping Anchor, it's bullish on the United States. The company earlier said its and Stone's leadership would manage the U.S. and export business for Sapporo, Stone, Anchor, and Unibroue.

"Stone meets all the requirements we were looking for in a partner for growth," Sapporo U.S.A. chairman Kenny Sadai said when he announced that plan. "It has the bi-coastal breweries, best-in-class team and a commitment to quality just like ours."

Maxim ranked Anchor's Christmas Ale among the best winter beers of 2022, saying Anchor "delivered a holiday beer worthy of celebration, tweaking the recipe ever-so-slightly with each season." They praised its "unique, visually appealing, classic bottle art each year" and "the sumptuous brew within the bottle itself." But where were the sales? The brand seemed, to make a pun, to be losing steam.

Sapporo's ownership of Anchor resulted in significant operating losses over several years, leading ... [+] SOPA IMAGES/LIGHTROCKET VIA GETTY IMAGES

Sapporo in the USA

Anchor generated a $12 million operating loss in 2020, followed by a $9 million loss in 2021 and 2022. Whether or not Sapporo executives loved Anchor's beer, they didn't like what the brand did to their balance sheet. In a written statement, Sapporo said it's taking a 6 billion Japanese yen loss (at an exchange rate of 140 per dollar) or $43 million related to the shutdown.

The company added that the United States "serves as a growth driver" where they "will aim to achieve further growth centering on Sapporo

Premium Beer by generating synergies with Stone Brewing Co.," which they acquired last August. The Sapporo-Stone match could be made in heaven, but at least as of now, it appears the Anchor acquisition didn't yield the benefits all involved had hoped.

"Larger corporate brewery groups for some time now have been looking to bring smaller breweries under their umbrella," Oksenhorn said of a strategy likely to fuel a great deal of successful brewery expansion, "but it doesn't always work."

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