Elsevier BusinessIntelligence

PharmAsia NEWS
DRUGS ■ BIOLOGICS ■ DEVICES

June 27, 2013

Defining Japan's Pharma Market: Insider Analysis From International Alliances Ltd.'s Reed Maurer

Long-time Japan pharma expert Reed Maurer outlines some of the common misconceptions companies have about entering the Japanese reimbursement system and why Japan should be considered a "re-emerging market."

For many and for a very long time the Japan pharma market frustrated outsiders because it seemed to operate in ways specifically designed to protect insiders. As a result, myths persisted to typecast the market as a black box, nontransparent and with various non-tariff trade barriers.

This article argues the market is not only transparent, but functions in a logical and positive manner for all the stakeholders who either provide or receive health care.

Government Does Not Reduce Drug Prices

Drug prices ex-manufacturers or ex-wholesalers are not controlled by any public body. What is controlled are reimbursement prices, that is, the price a pharmacist or dispensing doctor will receive from an insurer or payer. Thus, no matter the insurer or where health care is received in Japan, the reimbursement price is the same.

About one-third of Japan's population is insured by municipal and national government bodies, and two-thirds by about 1,500 private insurance societies. All operate under the same reimbursement rules for drugs and medical procedures.

Payers reimburse providers of drugs at the reimbursement price which is assumed to be the purchase price, as separate fees are paid to cover dispensing costs and a reasonable profit.

Dispensing drugs is a profit center if the buyer can pay less than the reimbursement price. Pharmacies therefore pressure wholesalers to sell at a discount from the reimbursement price. Wholesalers in turn pressure manufacturers to lower their selling prices beyond what would be a reasonable margin.

Competitive forces at work in the system cause drug reimbursement prices into a downward spiral. Every two years the government conducts a price survey to determine actual selling prices ex-wholesalers, and adjusts the reimbursement prices downward to more closely match purchase prices.

If manufacturers and wholesalers did not discount their prices there would be no reimbursement price cuts. This is a tricky dynamic. Do not discount to protect the reimbursement price, but lose market share because the competitor is discounting. Chain drug stores take their business to wholesalers who give the largest discounts. Insurers, in order to protect their members (patients), want reimbursement prices as close as possible to actual purchase costs.

In essence, the system penalizes old and/or non-innovative technology.

Innovation, Not Old Technology, Is Rewarded

The Japan pharma market fosters innovation in two ways. The first is to give new drugs high reimbursement prices. How these prices are determined is another article, but suffice it to say the initial prices in Japan are higher than those in the U.S. or Europe. This fact is not advertised to outsiders.

Second, there are no barriers to delay the rapid diffusion of new drugs, because there are no restrictive formularies, no cost/benefit analyses, and there is a cultural bias for something new versus something used.

Since Japan opened its doors to the West in 1868, it scoured the world for the best products, brought them back to Japan and made them better. It has never promoted adoption of old technology. Many called this copying when a better label would be small step innovation, what Americans once called Yankee Ingenuity.

This cultural heritage explains two features of the market. As drugs age, reimbursement prices go down and are replaced by new drugs with higher prices. Thus, at the end of the patent life the prices of so called long-listed drugs are relatively lower than prices in the United States.

Second, because original drug prices decline over time there is no large price umbrella under which generics can capture a large share of the market in a relatively short time. There is no patent cliff in Japan for brand name drugs. Rather there is a long tail whereby sales gradually decline as new drugs replace old drugs.

Japan has a long history of promoting research through various measures including monetary grants, favorable tax rates, and strong patent protection. The current government considers health care a growth engine for the economy, and will devote more resources to promote this sector. While other countries are enmeshed in trying to find ways to cut health care costs, Japan is upping the ante.

New Drugs Discovered In Japan

It is not surprising given the market features described above that Japan is a source of new drugs. In this regard it joins the U.S. and Europe as an incubator of new drug seeds. Couple this with Japan's market size, and it's a fertile ground for the development and launch of new drugs. Add on the demographic fact of a rapidly aging society, and you have a re-emerging market. It goes like this:

1. Older people are more intensive users of the health care system, including drugs.
2. This is a very rich society that wants the best health care possible and is willing to pay for it.
3. Money flows toward innovative products and procedures.
4. Everyone in Japan has health care insurance, out-of-pocket costs at 30% are relatively low, and there is universal access to the providers of health care.

Success in Japan is not guaranteed, but neither is it denied.

By Reed Maurer (Contributor)

Reed Maurer came to Japan in 1970 as Eli Lilly & Co.'s director of marketing. In 1971 he became vice president, responsible for Lilly's operations in Japan, and he later served as vice president at Merck & Co. Inc. Maurer was the first Japan Representative of the U.S. Pharmaceutical Manufacturers Association from 1987 to 1993. He is the founder of International Alliances Limited in Tokyo, Japan. He is the author of three books: "Competing In Japan," "It's Worth Doing: perspectives on the Japan Pharmaceutical Industry," and "They Do Well Who Do Good."