

## 2006: When the Pendulum Swung

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Japan has a curious tendency to move between a spectrum of outcomes with lull periods in between to allow everyone to catch their breath before the next big move. In my view 2006 was a year when the pendulum began to swing in another direction. Let me tell you why.

#### **Consolidation within the Healthcare Industry**

Consolidation of the pharma industry gathered momentum as newly merged companies got serious about focusing on their pharma businesses and divesting the rest. The immediate effect was a pot full of cash that will be utilized for two purposes, i.e. buying back shares, and investing in emerging technology from bio venture companies.

Three major mergers involved six companies, i.e. Yamanouchi, Fujisawa, Daiichi, Sankyo, Dainippon, and Sumitomo. Many wondered if these three combined companies would attract others under their respective umbrellas. The answer appears to be no as any third party would be a second class citizen with very little leverage in the decision making process.

The question now is, "Who's next?" Among the leading



companies the candidates are:

Takeda: A local merger would only slow down their drive into overseas markets.

Eisai: Could happen if the name on the building remains Eisai.

Otsuka: Acquisition rather than merger is a likely outcome.

Mitsubishi, Shionogi, and Tanabe: Might try to resurrect the glory of Osaka-based companies. Make your bet as to who will merge with

whom.

Consolidation within the wholesaler sector resulted in four wholesaler groups, i.e. Mediceo, Suzuken, Alfresa, and Kyoso Mirai (Toho). Practically, every other wholesaler is in some way affiliated with one of the four. Unresolved issues include:

Will further consolidation involve non-drug wholesalers?

Will wholesalers devise value added services to justify their 21,286 MS?

Will wholesalers exercise leverage vis-a-vis manufacturers and customers or become mere brokers in between?

Consolidation in the retail sector is creating concentration within chain stores, thus eliminating mom and pop stores from a viable position of power. The centralized buying power of the large chains now dictates discounts. Issues yet to be addressed include:

Will chain stores integrate backward into generic manufacturers?

Will dispensing pharmacies form buying groups?

Will both of the above integrate forward into home care?

Consolidation of hospitals is beginning as 40% of all hospitals have 20 to 99 beds. Many of these are not qualified to provide quality care for acute illness and may find refuge in focusing on chronic care for the growing elderly population. Issues emerging are:

How fast will regional centers of excellence emerge?

Will hospitals form buying groups to gain greater leverage over their suppliers?

Will "for profit" medical centers be permitted?

### Development and Review of New Drugs

The drug lag discussions really heated up in 2006. Everyone seems to be in on the act. This is a prime example of my pendulum thesis as I well remember when new drugs were developed, reviewed, and approved faster in Japan than in the US or Europe. Then scandals in the Ministry and a breakdown in the boss control over clinical trials caused the process to come to a screeching halt.

Many improvements are long overdue in the conduct of clinical trials. Because the system must be rebuilt I expect this will take some time. In the interim more trials will be done outside Japan, particularly in other Asian countries.

In our experience with the regulatory officials we sense a mood to approve. There is greater interaction with industry at earlier stages in the clinical trial process and submissions are being reviewed on a timely basis. Again, much more needs to be done but the wheels are in motion.

### Medical Doctors

Changes within the medical community are akin to a tsunami. Teaching hospitals can no longer dictate the

future careers of their graduates given the new intern program. More women doctors are changing the male dominated profession. Rural hospitals face a shortage of doctors while there is a surplus in urban areas. Group practices are emerging while the number of clinics increases.

The greatest change may be in the patient/doctor relationship. Patients are better educated and are no longer supplicants in front of doctors. Patient groups are becoming a strong lobbying force and lawyers are bringing more malpractice suits to the courts. Informed consent is becoming standard practice.

All of these actions are difficult for the old guard to understand let alone cope with. Meanwhile their political influence has sunk to an all time low as medical fees were cut in 2002 and 2006, stopping the historical upward trend. How far the pendulum will swing is anyone's guess.

### Japan's Place in the Pharma World

You have read the headlines about multinational pharma companies building research centers in China, that the pharma market in China will be the largest in the world within five years, that the Japan market will continue to grow at a

snails pace, and about the drug lag referred to earlier. Again a pendulum swing from an earlier day when everyone wanted to know about Japan, and I was going abroad seven times a year to talk about it. I wonder if executives on a fast track up the corporate ladder dread the possibility of an assignment in Japan?

But the pendulum will swing. We now see more innovation in Japan than ever before as a variety of institutions and universities get into the act and want to commercialize their discoveries. This society is aging at a rapid rate and is already rich enough to afford the newest and best therapy. Opportunities for those with innovative products or those looking for new ideas have never been better.

Every time people predict Japan is going down the tubes, that the national debt will sink the economy, that the drug market will tank because of the downward price spiral, and that Japanese pharma companies are destined to be local rather than international players, the pendulum swings. The setting sun forecasters end up scratching their collective heads and running for cover.

