

Maurer's Healthcare Insight (90)

What Has Changed? P. Reed Maurer

As a foreigner, what is the one question you are asked most frequently by everyone you meet in Japan? I am willing to bet it is, "How long have you been here?"

Because I lived in Japan for over 37 years my favorite answer to younger Japanese, particularly ladies, is to say, "Longer than you." Of course this answer provokes another question, "When did you come to Japan." When I answer 1970, I get an immediate admission of their age. According to population statistics, I have been in Japan longer than 46% of all Japanese, and it is rare for me to meet a foreigner who has been here longer.

Once the longevity, and by default, seniority issue is settled, a subsequent question is often "What has changed?" This is a tougher question to answer because my usual focus is on what is changing or will change. Looking ahead is more challenging than looking back.

Then why write about what has changed? Because three organizations have asked me to speak on this subject before year end I thought writing about change would be a good way to organize a speech. The focus here is on the pharma market, not the culture, people, food, *sumo* or baseball.

Pharma Companies

In 1970 pharma companies were transiting from what I call the "Anything Old Era," to the "Anything New Era." In the Old Era there was not much, if any, discovery research going on in Japanese companies. They concentrated on developing old technology, that is, drugs discovered elsewhere that could be licensed in or manufactured using an unpatented process. Their core competencies were manufacturing, distribution via a lock on wholesalers, and close, shall we say incestuous, relationships with the regulators.

A New Era was ushered in with a product patent law in 1975 and liberalization of foreign ownership restrictions in 1973. Research was refocused on small step innovations, i.e. second and third generation products. Some examples include Fujisawa's Cefamezin, Yamanouchi's Perdipine, and Tanabe's Herbesser. Core competencies became sales (not marketing) and an ability to get fast approval and high reimbursement prices from *Koseisho*.

This New Era lasted until the early 1990's when we entered an "Anything Unique Era." Small step innovation research took a back seat to discovery research in



the leading companies. Marketing emerged as it was necessary to enhance sales force effectiveness beyond adding more bodies and more calls on physicians. A core competency was the ability to shift resources in the firm to more promising R&D projects and promotion targets.

Around 2000 we entered the Era of Focus, Focus, Focus. Companies had to focus their research on specific therapeutic areas, and their

sales force on certain specialties. Consolidation of companies was initiated to counter the growing competitive threat of foreign companies in Japan, and to pool resources for advancing outside Japan. The core competency became an ability to focus resources on core businesses, divest non-core operations, and compete outside Japan.

In the early 1970's the power center of Japan's pharma industry was Osaka. It is now Tokyo. Former proud, independent names are now hyphenated like Mitsubishi-Tanabe, Dainippon-Sumitomo, Kyowa Hakko-Kirin, or disappeared like Yamanouchi and Fujisawa. Shionogi is no longer a top 10 company. A long list of so-called mid-cap companies are hanging on to long listed products. Their capacity for innovation is severely limited. Clearing out the laggards may usher in an era of buy outs rather than mergers.

Wholesalers

In 1970 there were over 1,200 pharma wholesalers, each one with local market coverage and typically identified with one manufacturer. Since then three trends emerged:

1. Consolidation which reduced the number of wholesalers to 128 in 2007.
2. Market coverage of the survivors went from local to regional.
3. The emergence of four wholesalers with national coverage, independence from any one manufacturer, and fierce competition for customers.

From 1990 to 2006 the number of wholesaler employees dropped from 74,790 to 55,847. The number of people in sales went from 38,816 to 24,181. These reductions were driven by the need to reduce operating expenses as gross profit margins dropped from double digit to single digit rates.

Going forward we may look back at the past 37 years as a relatively easy process of managing change. That is, consolidation was inevitable. Yes, the process required skill in negotiating and executing mergers, but the underlying challenges to survival did not go away, rather they were postponed. A core competency in the future will be an ability to provide value added services.

Of the sales personnel in wholesalers, 20,859 are MS, or Marketing Specialists. Their value add is very low if all they do is supply demand created by company MRs. The value add goes up if the MS can create demand, or better yet, shift demand. Can wholesalers manage this transition? If not, the number of MS must be cut to reduce personnel expenses.

Other Changes

There are many more changes to discuss, but I am running out of space. So let me conclude with a list of changes in bullet point fashion. The time span in all cases is from the early 1970's to the present.



- * Live births per 1,000 population
18.8 to 8.4
- * Fertility rate
2.13 to 1.26 (Tokyo is 0.98)
- * Infant mortality per 1,000 births
13.1 to 2.8
- * Male life expectancy at birth
69.3 to 78.5
- * Female life expectancy at birth
74.7 to 85.5
- * Number of physicians per 100,000 population
114 to 212
- * Number of nurses per 100,000 population
261 to 898
- * Medical expenditures per capita per year
¥24,700 to ¥259,300
- * Pharma industry R&D expenditures as a percent of sales
4.91% to 10.1%

If you are about to leave Japan after a relatively short stay, you may be inclined to say Japan does not change, or cannot change, or doesn't want to change. If so, you missed seeing the real Japan. Or maybe it didn't change the way you wanted it to change.

P. Reed Maurer falsely believes he changed Japan not vice versa.