

Maurer's Healthcare Insight (98)

The Mysteries of Japan Pharma

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Over the years I met many men (no women yet) who ran the Japan pharma operations for foreign companies. Most were ex-pats, some were Japanese. A few foreigners stayed in Japan a long time, most were here for only three to five years. Many loved Japan, others couldn't wait to return to their home country. Some achieved excellent results, others failed.

We could analyze *ad nauseum* why some people had success and others frustration. Personalities, knowledge of the language, cultural adaptation, etc, etc. However, in my view the single most important factor was and is having a boss in the home office who understands and can relate to the mysteries of the Japanese market.

Much has changed in the home office/affiliate relationship in the corporate structure. In the "old" days there were international divisions with country managers who controlled all operations within their countries. During the 1980's multinational companies shifted to global integration so they could do things in a common way everywhere. R&D, HR, and production people reported directly to global headquarters. Country managers were relegated to responsibility for sales and marketing. The unintended outcome for a market like Japan was less visibility than the home market. In essence a second-tier status in the corporate hierarchy.

This meant responsibility for company operations with a full set of business functions was diluted. To compound the problem, global heads with Japan responsibility have little or often no knowledge of Japan. They are impatient with explanations of why decisions made for other markets cannot be implemented in Japan. In short, there was and still often is a gap between what headquarters knows and what it thinks it knows.

Not surprising then that good managers view their Japan assignment as one where they do not rock the boat, do an OK job, but basically punch the time clock while they await a promotion to headquarters. During their stay in Japan they constantly travel back to the home office. Three weeks here, one week there is not unusual. When their bosses do make their annual visits to Japan they stay in the newest, upscale hotels, hold perfunctory press conferences but rarely get in front of customers, clinical trial sites, or the modes of transportation their employees use to get to work every day.

One question worth asking relates to travel expenses. Is most of the travel by managers in Japan going to headquarters versus home-office staff coming to Japan?



Given this state of affairs, the guy responsible for Japan must try to explain the mysteries of Japan without appearing to make excuses. No one is patient with an explanation that Japan is different. Say it often enough and you are in danger of being accused of eating too much rice.

Let's look at some of the common practices in Japan that are difficult to explain to a home office boss who has never lived and worked in

Japan.

Pricing

How to apply for and argue for a "fair" reimbursement price is a major mystery for any newcomer to Japan. The written rules are vague, open to various interpretations, and seem to be constantly changing. Home office people do not add much value to this process. The only way to arrive at favorable outcomes is to build local responsibility with capable and experienced staff. Negotiations with MHLW officials require sensitivity and close relationships developed over time.

Once a reimbursement price is fixed, the next challenge is the mystery of pricing to wholesalers. There is the invoice price which is only the beginning of negotiations that involve rebates and various incentives. Home offices cannot understand why wholesaler margins in Japan are triple anywhere else in the world. "What do they do to justify the margins?" No doubt the responsibility of negotiating a "fair" margin requires local expertise, and once again close relationships with wholesaler personnel.

Last but not least in the pricing game is the transfer price to a co-marketing partner. One approach is to fix the transfer price to a negotiated percent of the reimbursement price. Another is to fix it at some discount to the net price if you can get a handle on all the discounts made to an invoice price.

Sales and Marketing

Within this broad category there are a myriad of mysteries:

- * The frequency of detailing in Japan which limits territorial coverage.

- * How to measure sales productivity beyond the number of doctor calls per day.

- * The need for sales offices all over Japan to provide a desk for the MR to start and end his or her day.

* The importance of sales versus marketing. "What is marketing?" There is no Japanese word for this function.

* The difficulty of providing individual incentives and rewards versus those for a group of MRs.

* What to do with poor performers.

* How to reward exceptional performers without promoting them out of the job they do best.

HR

Foreign companies are growing faster than the market and they want to grow faster because of their robust pipelines. Growth requires good people and sustained development of talent. Hiring today and firing tomorrow does not



attract good people in this society. Recruiting heavily today and not recruiting tomorrow does not encourage professors to recommend your company to their brightest and best graduates.

Narrow salary scales that resemble an escalator with age are normal in Japan. Moving someone up to a higher level via an elevator may do more harm than good to the organization.

All too often good English speaking language skills are equated with talent. How do you know if a person is really qualified for the job if you can't communicate in the same language?

I could go on with other examples to prove the point that the top guy in Japan has a hell of a job making decisions if responsibility is centered thousands of miles away in global headquarters. As I alluded to earlier, those who most often succeed have a boss in headquarters who can relate to the mysteries of Japan on a personal level. With such a boss there is no need to constantly explain what works in Japan and why. He can stay here and make decisions rather than spending half his life on an airplane.

P. Reed Maurer has the perfect boss - himself.