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Foreign Pharma Challenges in Japan

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The penetration of Japan's pharma market by foreign firms continues apace. Growth rates exceed market growth and robust pipelines presage continued market share gains, largely at the expense of mid-sized Japanese firms.

Emerging foreign firms with products in niche markets are electing to build a presence in Japan versus licensing out their products. Firms with an established development group in Japan are building a commercial presence to market their products rather than looking for distribution partners.

The Japan market is no longer a black hole in the eyes of foreign company managers. Business practices may differ from the Western model but they can be understood and appreciated because they work. Those who write or speak about the differences are behind the curve of those who have moved on to concentrate on what works.

Then why write about challenges when most people are focusing on opportunities? Quite simply it is all about optimizing the potential of this market. Just making plans, or just beating market growth is not enough to satisfy the expectations of those who have grown accustomed to and are comfortable with how to do business in Japan.

During the past five months it has been my good fortune to meet personally with 34 presidents of foreign firms in Japan. Of course each company is different in many respects, thus I run the risk of generalizing to write about foreign company challenges. As I learned a long time ago from a professor at the Stanford Graduate School of Business, "No generalization is true, including this one."

Nevertheless, my discussions with a good cross section of executives did unveil several recurring challenges. Allow me to share them with you in the remainder of this article.

Recruiting, Training, and Retaining Talent

From 1976 until 1986 when I was with Lilly and then Merck in Kobe and Tokyo any warm body that walked in the door was considered a candidate for an entry level position. Today applicants far exceed demand, thus permitting companies to be highly selective in the people they employ. The stigma of working for a foreign pharma firm is gone.

The challenge is to recruit qualified people for development and regulatory affairs. Also to fill in the gaps at the *bucho* or director level. These people are older and less mobile than those in their 20's. However, good people in mid to small cap companies do not have products to develop or apply for approval thus likely to view foreign company pipelines as an opportunity to enhance their careers.

Training is a constant challenge because new products demand sophisticated knowledge of the benefits and risks of therapy. The English language is often a prerequisite for advancement. Changes in regulations require constant updating on the rules. Upgrading skills is a pervasive need throughout the organization.

Retaining talent is obviously a function of wise recruiting and training. The challenge comes when a company decides to relocate, or downsize, or change the leadership at the top with unreasonable frequency. Change is always threatening and inconsistency saps morale.

Obtaining Critical Mass

Organic growth is doable but takes time. Time is an unaffordable luxury when you have more products to develop and sell than you have resources to get the job done. An obvious answer is to acquire assets that give a company critical mass in development and sales. The challenge is to find an appropriate target.

Although mid and small cap Japanese companies do not have pipelines and cannot grow outside Japan, they are resistant to selling out. They are not under pressure from their lenders or shareholders. They have cash and make money. Failure is unheard of and independence is to be protected at all costs. Their owner/managers will survive but their employees may not.

A restructuring of this sector is inevitable but the question is when. An alliance with a foreign firm would be a win/win for both parties but the challenge is to do the deal.

Distribution

Foreign companies are relatively new to the business of distribution because they forfeited this function to Japanese partners. How to deal with wholesalers is a major challenge.

But hey, every manufacturer is in the same boat because wholesalers have changed and old knowledge is not very useful. The biggest change was and is the consolidation of wholesalers into four groups and soon into three with the merger of Mediceo and Alfresa. Other changes are a work in progress, i.e. transparency in pricing, elimination of bulk buying by sum value, and expediting price settlements.

In the "old" days it was common practice to deal with multiple wholesalers. When we (Merck) bought Banyu in 1983 I was astounded to learn they had accounts with 180 wholesalers.

One of the men I met this summer heads a company new to the distribution game. They are preparing to launch a new product with significant sales potential. One of the big four wholesalers was asked to come to their office. Tough distribution terms were presented to the wholesaler who was told they would be the exclusive distributor. The terms were agreed to and the meeting was over in 10 minutes.

Wholesaler changes bring new opportunities but the challenge is to purge old thinking from the company. Dealing with 20, 30, or 40 wholesalers because of past relationships is not only passé, it is inefficient and uneconomical.

As I said up front, generalizations about foreign companies are risky. Larger companies with a footprint in Japan for a long time learned to hire excellent people and retain them through enlightened training and personnel practices. Smaller companies in a high growth phase must learn how to develop talent.

The same can be said about obtaining critical mass. A company with niche products does not need an army of MRs. Forty to 50 MRs are sufficient to cover the key opinion leaders and hospitals.

One common theme that can be generalized is the optimism of foreign firms in their ability to grow and prosper in Japan. And surprisingly this optimism is shared by their corporate bosses. This buy-in is important for the allocation of resources necessary to take advantage of the challenges.

I know there are exceptions, but I could not meet these company presidents because their calendars were occupied with problems.

P. Reed Maurer likes to listen to people who see challenges as opportunities rather than problems.