Maurer's Healthcare Insight (101)

Loving the Japan Pharma Market

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If you live in Japan and work in the pharma industry count your blessings before you go to sleep each night. If your reaction to this opening line is, "What blessings?", let me help you with a few suggestions.

Predictability

Although frustrating for those executives who come here expecting to implement changes before they move their furniture into a new apartment, Japan is not amenable to rapid or drastic change. A sociologist might ascribe this behavior to a homogeneous society that values harmony and consensus over disunity. Reaching a consensus takes more time than a top down decision, but once achieved involves everyone in execution. What good is a quick decision if it leaves 49% of employees uncommitted to the outcome?

A businessman might define this behavior as an aversion to risk. Long live the status quo because it served us so well in the past. Consistency of actions is far better than inconsistency. But our frustrated businessman cries out, "No pain, no gain, we must change."

Whatever your opinion, the end result is a predictable pharma market. Value growth plugs along at 2% to 4% per annum and volume grows at 5% to 6%. Reimbursement prices are reduced every two years within predictable ranges. New product diffusion is rapid and nationwide without local or regional restrictions.

What's not to like about a market that does not go through wide swings in reimbursement policies?

No "Falling Off a Cliff"

Products in Japan have a long tail. That is to say when the patents on a product expire and generics are introduced, the original product does not lose significant market share in a short period of time. These so-called long listed drugs continue to enjoy reimbursement price premiums over generics and are not widely delisted from formularies.

The Finance Ministry knows that substantial money could be saved in the health insurance system by reducing the reimbursement prices of original drugs to the same level as generics. If implemented this would be a drastic change and cause pain for many companies with a high percentage of off patent drugs in their portfolio. Not a surprise that the MHLW has resisted this type of arbitrary price reduction. Their counter strategy is to promote the use of generics, i.e. set a generic volume target of 30% within five years. Time will tell if this target is achieved, but the current growth rate of generics is nowhere near sufficient to reach this target.

Distribution Rationalization

In Japan distribution of pharma products is practically 100% through wholesalers. Very few sales are made directly from manufacturer to pharmacy. This ensures proper handling and tracking of products throughout the system. Thus, parallel trade issues are nonexistent and counterfeit drugs cannot enter the country. Internet buying of pharmaceuticals is limited to personal use and few patients avail themselves of this service.

Wholesalers continue to consolidate so it appears we will have three nationwide wholesalers after the merger of Mediceo and Alfresa. These changes will promote price stability and more transparency in price negotiations throughout the value chain.

Meanwhile mom and pop drugstores are giving way to chain stores whose buying power will increase. Whether or not they can influence demand is questionable, but they will pressure wholesalers for higher margins.

Consolidated wholesalers and drugstores will make access to the distribution chain a level playing field open to all manufacturers versus a closed system based on human relationships. This favors outsiders who do not have a long history of working with distributors.

Weakening Competition

Japan is an extremely competitive market and the cost of competing is high. The large cap Japanese companies will continue to fight tooth and nail to maintain their dominant market share. But this power is limited to a relatively few companies while the rest are losing ground.

The mid and small cap companies do not have robust new product pipelines and their older products are under pressure from generics. They are hungry for products but do not have much to offer a licensor. Their management is often family related and their dedication to the status quo is pervasive. Their competitive power is waning.

As of now there is no strong emerging competition from venture bio-companies. Few have real products and those that do are underfunded, and their initial investors have been burned by low market valuations. The emergence of a Japanese Amgen or Genentech or Biogen is a long way off.

Availability of Talent

There is no shortage in Japan of well educated and talented employees willing to work hard. Most important is their loyalty to the firm. Layer over this basic honesty and dedication and you have an atmosphere where the need for rigid controls is not a major issue. Yes, there are dishonest and lazy people but they can be identified in the selection process and weeded out before allowing them to infect the firm. This group mentality is like a battleship that is difficult to change direction, but once headed toward a goal the momentum is awesome.

Shortening the Drug Lag

The cost of drug development and the time required to complete clinical trials has not been a blessing. But there is a growing consensus that drug lag problems must be eliminated. They will not be corrected overnight but the problems are being addressed. Given the slowdown in drug approvals by the FDA I believe we will see Japan's relative position improve.

Sleep Well

No one should have told you that doing business in Japan is easy. But it makes no sense to lay awake at night pondering the things you cannot change. There are many opportunities for change within the inherent value system of this civil society. Concentrate on what can be and must be changed. Sleep will come quickly. Success in Japan is not guaranteed but neither is it denied.

P. Reed Maurer believes in the power of positive thinking. Not hard to tell from this article.