

Maurer's Healthcare Insight (112)

## Gaishi-Kei Are on a Roll

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This summer I personally met 33 presidents of foreign pharma companies in Japan. This is close to but not 100% coverage of foreign companies because a few presidents do not want to talk with me. Can't win them all.

Practically all the companies have home offices in Europe or the US. The presidents include a variety of nationalities from many countries. Almost one half are Japanese nationals. They represent large and smaller companies as well as bio-ventures. They are fine people who optimistically view the challenges and opportunities of their position.

Seems appropriate to relate my general impressions of the state of foreign pharma companies (*Gaishi-kei*). Each company is very different but they all face similar issues in this market. Might also add my inside view of these companies is from the top of the organization. With these caveats, let us proceed.

### First the Numbers

Eighteen of the visited companies had sales reported by IMS in 2008. Of these, 10 grew faster than the market, and eight below market growth of 2.6%. Of these, four had negative growth.

Eleven of the 18 companies ranked by IMS were among the top 30 companies. Eight of these 11 grew faster than the market, thus enhancing their ranking. None had negative growth.

Seventeen of the top 30 companies were Japanese. Of these, 12 grew slower than the market, and among these, seven had negative growth.

These numbers clearly indicate foreign companies are enhancing their market position at the expense of slower growing Japanese companies. This is not a one time 2008 event. Rather, it is a trend that looks to be unstoppable for the foreseeable future.

### Opportunities

No need to look further as to why the presidents are optimistic than their pipelines and recently launched drugs. They have more products to develop and promote than they have resources to get the job done.

Thus some have turned to Japanese companies for co-development and co-promotion. In essence, the local companies are acting like contract research organizations and contract sales organizations. That is, they have development and sales resources but nothing to develop or sell. A deal with a foreign com-



pany may be better use of their time and talent than trying to sell generics in the face of strong local and multinational generic companies.

A second opportunity is the availability of good people. I am told applicants far outnumber the positions available. This definitely puts foreign companies on a level playing field with their Japanese competitors.

Hey, applicants are not naïve. Not hard to see where the opportunities lie, i.e. new products equal growth, and growth equals a bright future. Conversely, if the future is dependent on licensed in products there is a high level of uncertainty.

A third opportunity comes with the consolidation of wholesalers. The survivors, basically four wholesaler groups, are no longer bound to the large Japanese companies. This means there is more transparency in the distribution metrics. Foreign companies are gradually learning how to work the system in their favor. In the past foreign companies were basically locked out of the system.

Finally, as recognized earlier, many of the companies I called on do not have product sales in the IMS coverage. This is because they are in the development stage with exciting new drugs to meet unmet medical needs. That is, products in niche areas, and fewer patients with diseases not well treated with current therapy.

This is a major opportunity because these drugs can be developed with fewer resources in less time. They will be launched and marketed with a fraction of the MRs required to support drugs for more common diseases.

### Challenges

Challenges faced by foreign company presidents are a mirror image of their opportunities.

First, developing a robust pipeline of new drugs in Japan remains a headache for several well documented reasons. Cost is a major factor, at least three times other countries. Then there are regulatory hurdles, not the least is a PMDA that promises to shorten review times but never delivers results.

A continuing challenge is how to integrate the Japan development program with a global, or Asian program. Progress is being made but we are at an early stage of understanding what is and what is not required.

Underlying the above challenges is a high level of uncertainty. "When" is the most often used word in this regard. When can we meet the PMDA? When can we enroll all patients in the trial? When can we make our NDA submission? When can we get approval?

The opportunity to get good people is great, but it is only the beginning of a larger challenge. In a nutshell it is developing the people you get. A major issue is increasing productivity in the sales force. In this regard the presidents believe they should spend as much time in the field as possible. Some are out every week. Some less. But those that do go out know it makes a big difference in morale and a desire to improve performance. Unfortunately some presidents spend more time going back and forth to the home office than they do in the field.

A challenge for bio-venture companies relates to the fact that some are spending money, not making money. This means they struggle to get sufficient resources. Sometimes the commitment is there, sometimes it is not. When not forthcoming the job is tough and frustrating.

**What I Hear and Don't Hear**

In summary here is a short bullet point list of what I heard and just as importantly, what I didn't hear during my meetings.

**Not Heard**

\* How Japan is different. These people have been around and know about differences. The issue is what works.

\* Complaints about prices. These people may publicly complain about prices through their industry associations, but privately they are satisfied.

\* Talk about getting out of Japan to their next job up the corporate ladder. These people are committed to the job they have.



**Heard**

\* Lingering concern about lack of Japan knowledge in the home office. Will it ever end?

\* The challenge of change management. Unfortunately there are many people who do not believe business practices change. They like the "old" way.

\* A welcome air of humility rather than an attitude of "I have all the answers, so you need to listen."

\* A sense these people are having fun.

In short, a refreshing look inside the *Gaishi-kei* in Japan. My summer went by quickly thanks to an open door at many presidents' offices. Nice to meet people on a roll.

*P. Reed Maurer prefers to be in the offices of other people rather than his own.*