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The Galapagos Factor

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Anyone in Japan for more than a week will try to find ways to describe the language, culture and customs of this country. Some give up the challenge and confine themselves to the ex-pat community. Others get so immersed in the culture and language they forget who they were and are not quite sure who they have become.

How to do business in Japan is a common theme of books, seminars, and articles in a variety of publications. We grasp for labels to describe the uniqueness of business as conducted in Japan. An example is Japan Inc., once a favorite label to describe the interrelationships between government and industry.

Over the years I had my own favorite ways of describing Japan. One was to compile a very long list of everything done opposite in Japan versus the West. It ranged from simple things like you wash outside the bathtub not in it to the more profound like in the West Shakespeare said, "To be or not to be, that is the question;" but in Japan only "to be" is the question, "not to be" is nothing. I also found a study of sake brewing offered deep insights into the social structure. For example, women are not allowed in the room where sake is brewed; he who pours his own sake is without friends; never ever drink sake and eat rice at the same time.

My own book, *Competing In Japan*, published in 1989 in both English and Japanese was an attempt to explain the pharma industry. Most surprising the English version went through three printings. I had no idea there was so much interest in a non sexy subject like drugs.

For many years I read almost every book published about Japan, attended enumerable lectures, and paid a ton of money to attend seminars on what makes Japan operate the way it does, and what makes the Japanese, well, so Japanese.

And yet in this exhaustive search I missed maybe one of the best explanations. It was brought to my attention recently when I was talking with a very bright Japanese man I knew when he was in the private equity business. He then moved on to another life and now again to a job in the pharmaceutical industry.

He told me Japan can be explained by the Galapagos Factor. Apparently this is common knowledge is certain sectors which I completely missed during my 40



plus year search. The lesson is never stop learning how to understand Japan.

The Galapagos Islands are an archipelago of volcanic islands distributed around the equator in the Pacific Ocean. The islands are famous for their vast number of endemic species, which were studied by Charles Darwin during the voyage of the *Beagle*. His observations and collections contributed to the inception of what we know today as Darwin's theory of evolution by natural selection.

Endemic species are plants and animals that do not exist anywhere else in the world. In short, they are unique and evolved in their own ways because of their isolation from other species.

Sound like Japan? My Japanese friend used the mobile phone as an example of the Galapagos Factor. In Japan the *keitai* or mobile phone has evolved to include many functions that go beyond making a phone call. Readers will know better than I about phone features because I have an aversion to phones that cause their users to go into a trance like mode of finger tapping.

Suffice it to say this evolved multipurpose device is endemic to Japan. Thus manufacturers of these phones are not competitive outside Japan against companies like Nokia who make a more simple device. This is akin to the magnificent blue-footed boobies of Galapagos with elaborate mating rituals that do not exist elsewhere in the world.

Is the Galapagos Factor relevant to the healthcare sector? Let us count the ways. Given modern transportation and communication technology like the internet, Japan is no longer isolated, but it does have a unique limitation that drives evolution. The issue is space, more specifically the lack of space.

Because living space is limited, medical representatives or MRs cannot have an office at home where they keep their records and promotion material. Hence pharma companies have sales offices all over the country where MRs gather in the morning and evening. Given real estate costs in Japan this is an expensive add on to sales overhead.

Pharmacies lack space to store drugs, thus they demand wholesalers make daily, small package deliveries. This increases the cost of distribution and manufacturers are required to give wholesalers a much higher margin than in the West.

A second limitation is size. No doubt the Japanese are getting bigger because of better nutrition, but on average Western body sizes are significantly larger. This factor has driven the evolution of lower drug dosages in Japan. Also Japan's unique pricing system causes manufacturers to test their new drugs at the lowest effective dose, thus getting a higher price for a lower quantity of drug substance.

Another Galapagos Factor is the relentless downward revision of drug prices. The only way up the price curve is to come out with something new, anything new. Thus, Japanese research evolved to discover second, third, fourth, and fifth generations of drugs. This incremental innovation is competitive in Japan but lacks punch in the West where physicians are looking for something uniquely new.

A big question today is how will the generic business evolve in Japan? Already we see some endemic characteristics. Generic companies hire expensive MRs to promote their products to doctors. Pharmacists are given higher dispensing fees for generics.



Both increase the costs of generics. What then will be the rationale for the customer to request a generic versus a branded drug that has been reduced in price for the past 10 to 15 years? I don't know what the generics model will look like in five years but a good bet is it will have a unique evolutionary outcome.

It is already clear bioventures in Japan are not evolving as they did in the West. Nor have we seen academic /industry collaboration in Japan mimic the US model. Once again the Galapagos Factor is at work.

We could go on but I am running out of my limited space. But you can think of endemic actions and procedures in your own organization that cause home office people

to claim you are not following the corporate mantra. To get them off your back use the Galapagos Factor explanation, or send them a copy of this article.

P. Reed Maurer failed to explain Japan as a corporate insider but succeeded as an outsider.