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The *Tako Tsubo* Factor

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My previous article (PHARMA JAPAN May 31, 2010) described the Galapagos Factor as responsible for the unique ways many Japanese business practices evolve over time. They become endemic to Japan, do not export well, but thrive in this environment. To a large extent this is due to cultural homogeneity and isolation combined with the limitation of space. Understanding this phenomenon is a first step toward running a successful business in Japan.

Having said that, it would be a big mistake to assume all Japanese businesses operate in the same way or are successful because of similar reasons. Once upon a time it was fashionable to describe Japanese business as a convoy system. In the pharma sector we could say there were big ships, small ships, fast ships and slow ships, but they all moved together as one. What was good for the small, slow ships was also good for the big, fast ships.

Such a notion is now definitely passé. A primary example is the recently enacted premium for patented drugs. This policy favors big and small fast ships who are growing because of a robust pipeline of new products. Furthermore, the slow ships with many long listed products are forced to accept price cuts above market mandated price reductions.

The "take away" here is an implicit assumption on the part of government that not every company will survive in this industry. There will be losers and winners, a major break from the past when there were no losers, only those who did well and those who did not do so well.

There is an adage that says, "You go broke slowly and slowly and then all of a sudden." Many companies are now in the "slowly" stage. Revenue growth is anemic but they are still profitable because of cost cutting. No new products will be launched in the foreseeable future. Something must be done but management is content with a business as usual approach.

The inertia in these organizations is contagious. I recently heard of one such company and was surprised to learn their rank and file younger employees were not agitating for change. I was told everyone was staying quiet because their jobs were secure, that is, the company never laid off employees or downsized. Given the current job market they feel it is better to have a job than not have a job. Apparently management believes their salvation is to enter the generics business. This is akin to a low risk no reward scenario.

While pondering the lack of management action in certain local companies a Japanese associate came to my rescue with an explanation. He said, "This is the *Tako Tsubo* Factor." Because I never heard of the *Tako Tsubo* Factor I asked for a definition which I am pleased to share with you.

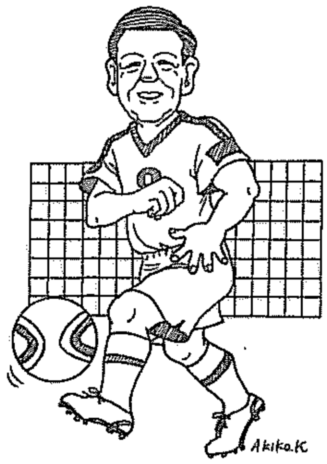
Tako is the word for octopus and *Tsubo* is a kind of cage. A literal explanation relates to the way you catch an octopus. Put bait in a cage, lower it into the sea and wait. The octopus goes into the cage and no matter how much the cage is jostled the octopus makes no attempt to escape. This expression is also used to describe the tactics of the Japanese army in WWII, most notably in the defense of Iwo Jima and Okinawa.

The procedure is to dig a hole, put a lid over it and lay low while the battle rages overhead. Unless there is a direct hit on your hole you survive, hopefully to fight another day. But as experience has proven, a purely defensive strategy does not win a war or a battle. By the time you emerge from the hole all is basically lost. Another translation is "silonization" where you are at the bottom of a tall silo and your view of the sky is restricted to a small opening at the top.

A characteristic of people in a hole is they believe they are winning the war. They passionately believe they will be rescued and emerge from their hole unscathed and in fighting shape.

We can take this analogy too far, but it is true there are many pharma companies currently dependent on long listed drugs that will be reduced in price. Yes, the process is gradual but inexorable. Relying on long listed drugs for revenue growth is a losing strategy like digging a hole.

Focusing on a specific therapeutic area is one answer to the "How can I survive" question. Santen has done well in eye care, Hisamitsu dominates in patch products. Maruho seems to be building, albeit very slowly, a dermatology franchise. Several companies believe female health is a core business, but they have no new in-house products and a small chance of licensing in products. An offensive strategy would be to roll up products from several companies and put them into one specialty house. Alas, the attempts I am aware of to implement this strategy have failed.



There was a day when the door to the Japan pharma market could only be opened by a local company. Therefore, they were accustomed to waiting for the inevitable knock on the door. These days the knock does not come except by early stage venture type companies with products that will require years of development before marketing. The competition for late stage products is intense and valuations are high.

Another option is a strategic alliance with a foreign firm or a Japanese firm eager to expand into the pharma sector. These alliances are hard to do and very few get done. Why? Mainly because the target firms want to maintain their perceived independence. "No you cannot have equity in our company. Yes we will support you, but we must promote and sell your products in our name."

In other words, "If you want more than a license fee do not bother me. I am safe in my cage even though unaware I am trapped and will soon be raised to the surface and eaten in a sushi restaurant in New York City."

P. Reed Maurer sees people who run a business, build a business, and maintain a business. The latter are least interesting.