

Maurer's Healthcare Insight (124)

## What's Going On?

P. Reed Maurer

Do you like to meet people? Except for hermits most people like to meet other people. This must be true because Japan's population is declining in rural areas but not in the cities. You meet more people in Tokyo than in the Japan Alps. But today we can live anywhere there is access to internet web sites like Facebook that connect you with and tell you how many "friends" you have.

But my preference, probably indicative of age, is to meet people face to face. However, a problem is the initial hurdle of opening the conversation. Between foreigners the usual ice breaking question is, "How long have you been in Japan?" This is an old story for people who have met before so a new opening question is required. The one I get most frequently is, "What's going on?"

This was particularly true this summer when I met personally with 37 foreign healthcare company presidents and in each case we discussed what is going on. So - because of the gracious hospitality of this wonderful group of executives, I am a walking encyclopedia of what's going on. Let me share just a small portion of this information before it goes out of date.

### Change

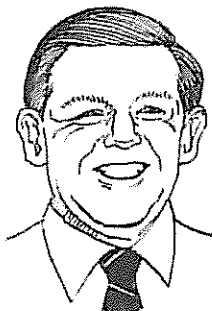
To begin, an observation by a guy who has been in Japan a long time getting drugs developed and registered with a track record many would die for. He told me, "Everything is changing here so rapidly," This will surprise those of you who believe nothing changes in Japan. What does not change are basic cultural values, but how you do business in the context of these values is constantly changing.

People who do not get this difference are constantly asking WHY something is done a certain way instead of learning HOW it is done. WHY type questions are for philosophers, HOW questions are for people who run successful businesses.

One of the latter people removed the framed mission statements hanging on the office walls. These were creations of the home office that required 10 minutes to read. His replacement was a simple statement, "Will it sell more."

### Marketing

Which reminds me of many comments that indicate



the age old battle between marketing and sales shows no sign of detente. Japanese companies do not often waste time discussing this issue because there is no Japanese word for marketing. Everything is sales. In many foreign companies marketing is the holy grail. I rarely meet a sales manager from the home office visiting Japan, but do see a lot of marketing managers. Makes you wonder if the priorities are right.

Having said this I did meet a foreigner this summer who does sales consulting. He actually grew up in Japan so his Japanese is excellent. He told me his work is done in the field with sales managers and MR's. What a breath of fresh air!

### Effectiveness

Don't know why this age old truth surprised me during my meetings, eg. the caliber and skills of the *shacho* or president has a direct influence on the entire organization. This fact should be considered more carefully by foreign firms who rotate presidents into and out of Japan like a game of musical chairs. Yes, if the top man is not effective get him out of here, but if he is, keep him or her in the job longer than the usual three years. A Japan assignment should not be used to develop a person's managerial abilities, but rather to apply them.

### Competitors

The companies I visited either have or are developing patent protected drugs. Their growth rate exceeds the market growth hence optimism rules. Contrast this to the mid and small Japanese companies who are living on long listed drugs and believe generics represent a great revenue enhancing opportunity.

One measure of how the outside world considers the future prospects of these companies is their respective share prices. The chart below shows the five day moving average prices of 16 companies in mid July versus the net assets per share. A resulting ratio below 1.00 indicates the price per share is below the book value of its assets per share.

In other words, if you could have purchased 100% of the outstanding shares of any of these companies at the prevailing share price in July, you could have sold off the assets of the company and turned a significant profit.

	Net assets/ share (yen)	5 day moving ave. (7/14/10)	PBR (%)
IMMUNO-BIOLOGICAL LABORATORIES (4570)	3,495.73	1,096	0.31
KAINOS LABORATORIES (4556)	596.89	263	0.45
TORII PHARMACEUTICAL (4551)	2,637.30	1,385	0.53
ASKA PHARMACEUTICAL (4514)	1,176.26	614	0.57
YUKI GOSEI KOGYO (4531)	406.15	246	0.61
NISSUI PHARMACEUTICAL (4550)	1,061.64	689	0.65
CANBAS (4575)	929.46	488	0.66
MORISHITA JINTAN (4524)	359.55	238	0.67
DAINIPPON SUMITOMO PHARMA (4506)	864.51	660	0.77
KISSEI PHARMACEUTICAL (4547)	2,285.37	1,699	0.78
WAKAMOTO PHARMACEUTICAL (4512)	368.67	297	0.82
NIPPON SHINYAKU (4516)	1,187.42	1,009	0.88
KYORIN HOLDINGS (4569)	1,403.60	1,254	0.89
EIKEN CHEMICAL (4549)	1,057.09	797	0.90
KYOWA HAKKO KIRIN (4151)	940.79	872	0.95
SEIKAGAKU (4548)	975.68	897	0.95

### People

The availability of good people, particularly for the well established firms, is not an issue these days. Neither did I hear a need to downsize. Thus, selective recruiting is in and growth is not restrained by the lack of people. Smaller, niche players do have a harder time attracting people to support their rapid growth particularly in the development function.

Recruiting good people is one thing but a continuing challenge is to instill a "global mind" in the employees you have. Foreign and the large Japanese pharma companies have the same issue and simply learning English is not the answer.

### The Big Picture

Below are snapshot taken on what is going on:

- \* How to extract value from the burgeoning costs of pharmacovigilance is a widespread challenge in both large and small companies.

- \* The lack of a clear government policy re health care is not conducive to longer term strategic planning. Will this get sorted out in the short term is anyone's guess.

- \* How the generics' business model will evolve in Japan is still a work in progress. At least for now, the impact of generic penetration on foreign companies is not a major issue. However, any company with a large percentage of long-listed products in its portfolio has good reason for concern.

- \* These days I never meet anyone who is planning to increase their manufacturing operations in Japan.

- \* The most distressing observation is the lack of a bridge (lead bioventure) between new drug seeds and the development and marketing of useful drugs. More optimistic is the progress being made to eliminate the drug lag.

Finally a word of appreciation for the open doors of 37 company senior executives. Meeting people face to face is the best way to know what is going on inside the system.

*P. Reed Maurer needs a dose of reality every summer to make the rest of the year worthwhile.*

### < Notice >

PHARMA JAPAN accepts advertisements. For more details contact ORIOX JAPAN LTD., 3-4-25, Shimomeguro, Meguro-ku, Tokyo 153-5600: Tel, +81-3-3792-5600; Fax, +81-3-3792-7500; e-mail, [pharma@orioxj.com](mailto:pharma@orioxj.com).