

Maurer's Healthcare Insight (126)

Do You See What I See?

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Difficult in Japan for people to think what the future will be like, whether tomorrow or 10 years from now. The usual process is to project what happened in the past into the future. If sales went up last year they will go up next year and vice versa.

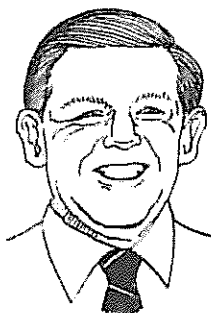
Forecasting is a cerebral exercise, i.e. speculation, whereas what already happened is felt in your gut. Father Ballon (deceased) of Sophia University would explain this way. In the West, "To be or not to be, that is the question (courtesy of Shakespeare)." In Japan, "To be is the only question." One outcome of this focus is the prowess of Japan in hardware while the West excels in software.

Think of our own industry. Japanese want to talk about sales, foreigners talk marketing. Western research wants to discover the first generation drug, a game changer. Japan research is more incremental, i.e. second or third generation drugs. Westerners tire of the mindless repetitive attention to detail inherent in quality control, while this is a Japanese forte. Seniority based wage scales verses performance or merit based scales. Ask for a sales forecast and there will be a lot of excuses about uncertainty.

I may be over generalizing and fail to mention the large number of Japanese who went to business schools abroad and recently in Japan. They learned to forecast. More companies are now preparing five year plans and so called vision statements. Still, a crystal ball is more likely to be found on a street corner in Shibuya than in the business development department of a pharma company.

One example of the risks or costs of not thinking about the future relates to the use of wholesalers. In the late 80's and early 90's companies typically distributed through 80 to 100 wholesalers. A high IQ was not required to forecast a consolidation among wholesalers five to 10 years in the future. But when I proposed a 12 wholesaler network I heard many arguments why this would never happen. You can imagine the wailing and gnashing of teeth over the prospect of saying sayonara to 80 wholesalers.

Today you do not need more than four wholesalers and I know a couple of brave souls who are using two for nationwide distribution. Hanging on to a bloated distribution structure because of relationships is an expensive exercise.



OK, if you believe that Japan never changes then forecasting is a simple process of projecting the past into the future. By the way, you will have plenty of friends. But I submit this is a comfortable but risky assumption.

Better to speculate, and yes, guess about the nature of future changes. There are people much smarter than I who will give very good reasons for injecting views of the future into your current plans. And I am not talking about that lady on the street corner in Shibuya.

The nice part about thinking about the future is no one can declare you are right or wrong with any degree of certainty. But that kind of debate is what makes this exercise so useful.

So let us begin by asking the question of this article, Do You See What I See?

Wholesalers

Let's start here because it was mentioned above. Consolidation of wholesalers is not yet done but we are at the end stage of a 20 year process. The major issue today is what will become of the wholesaler MS or marketing specialists?

There are about 20,000 of these people in Japan, which is a significant reduction from the past, primarily a result of the aforementioned consolidation. Nevertheless, this is a huge cost wholesalers want manufacturers to pay for through higher margins and/or rebates. A key question is, "Does the MS add value?"

I personally would like to believe wholesalers will find a way to justify the MS, but I see a gradual reduction in their numbers, and those remaining will be as qualified as MRs so the wholesaler can act as a provider of contract MRs or CSO. If you see this then change your margin structure (read reduce) vis-à-vis wholesalers, but contract for specific promotion by the MS.

Smaller Japanese Companies

Small companies are classic examples of no forward planning. It is all about doing what we did in the past but trying to do it better. They have no pipeline and live on long listed drugs that will be given severe reimbursement price cuts in the future. They must change their business models but the choices are not

evident. Some believe generics are the answer to revenue growth. Others believe they can license in drugs from outside Japan.

I see a tipping point coming in the near future, i.e. three to five years. They cannot survive as independent entities. Acquisition by the large Japanese pharma companies is not likely but can occur by large companies like Asahi Chemical. Foreign companies would make good partners. Mergers between small companies are a classic $1 + 1 = 0.5$.

Large Japanese Companies

I personally see consolidation among large pharma companies as a done deal. But people I respect say that in five years there will be another wave of consolidation that could involve Shionogi, Eisai, and even Takeda.

Most certainly there will be increased Japanese company competition outside Japan. The yen is going to get stronger which will make acquiring assets outside Japan a bargain. No need to spend yen in Japan when it can buy more outside Japan.

Government Policy toward Health Care

This is the hardest to forecast given the political impasse in Japan at the present time. Having said this, the health care sector is so large it cannot be neglected.

It is a growth industry and this rich society will demand the best treatments and care that exist in the world. Resources will not be denied.

I see more money devoted to innovation, to fostering a viable bioventure industry, to eliminating the drug lag, and enhancing the clinical trial environment, e.g. lowering costs and encouraging patient entry into trials.

You may not see what I see but it is important to see something that goes beyond past experience. Guessing about the future is not an idle exercise. The future of a company may depend upon people who

judge the probability of future events and act accordingly.

P. Reed Maurer is not an oracle but respects those who act like one.

