

PHARMA

JAPAN

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10 Reasons for Optimism in 2011

P. Reed Maurer

Optimism is a matter of mind over reality. Two people can look at the same reality but come to opposite conclusions about the outcome. The old story of two shoe salesmen who went to a certain country in Africa to open the market for their shoes is apropos. One wired home saying there wasn't a market because no one wore shoes. The other saw fantastic potential for exactly the same reason.

Japan evokes the same diametrically opposed opinions about everything from drug development to sales potential. Some see a drug lag and conclude Japan is an unfriendly, expensive, time consuming place to develop new drugs. Others see the drug lag as a stimulus to providing rewards or short cuts in drug development.

Some see the low single digit growth of the market as another reason to focus on the so called emerging markets. Others see Japan as an emerging market because of a wealthy aging society that demands the best of health care. The issue in Japan, unlike the US, is not about cost control. It is about access for

everyone.

With these caveats let's look at the reasons why you should be optimistic about the Japan market in 2011. Just a few months ago you listed all the pessimistic scenarios while preparing your 2011 profit plan or budget for the home office. But that was a game everyone plays to get a low target and high praise for exceeding it. Now it is time to face reality.

1. No reimbursement price reductions in 2011

The biannual ritual of price revisions in the reimbursement tariff is a terrible headache. More time is spent negotiating the price of drugs than selling them. It is the one time pharmacists/purchasing managers can exercise a sense of power. Not real power because few exercise control over demand, only the supply of drugs. In 2011 we are spared this largely unproductive exercise. For someone who once had to go through annual price revisions, an off year is a very good reason for optimism.

2. Full implementation of price premiums

A new price premium scheme went into effect in April, 2010. Implementing anything new in Japan takes time, but once everyone is on board results come quickly. 2011 is the time to make price premiums work so by the end of the year no one will consider this a temporary measure, but they will be set in stone and expanded in April 2012.

3. More new drug launches

A consensus has been building for some time to eliminate the "drug lag" and to expedite approval of drugs not yet available in Japan. Patient groups are exerting effective pressure to get access to orphan drugs. A new drug launch inspires the entire organization and boosts morale, thus stimulating sales across the line.

4. Government healthcare policy

While it is still too early to make any conclusions about this government, at least no negative initiatives have been implemented. This government, as one MHLW official told me, "Cannot get any bills passed." A status quo situation is not as bad as having to react to new initiatives. Kind of gives us all a chance to concentrate on today's business.

5. Long listed products still make money

The off patent, branded drug situation, that is relatively high prices, is a great relief for companies without new products. In my view this will not continue, but at least in 2011 these companies are spared. 2012 will be a different story.

6. Generics continue steady growth

Steady growth of generics is far better than dramatic growth for companies mentioned in #5 above. It is also good for the generic companies who can grow their businesses at a measured pace.

7. Expansion outside Japan getting easier

Japanese companies are learning how to manage their businesses outside Japan. They also have ample funds and access to cheap capital to be acquisitive. That is, to build critical mass by acquiring platform technology and infrastructure to facilitate their growth. This is already a fact as far as Takeda and Eisai are concerned, but I keep hearing about CEOs from mid-

sized companies taking trips outside Japan, and not for sightseeing.

8. Expansion in Japan accelerating

Foreign companies are on a roll with lots of new products in the market or pipeline. Hiring good people has never been easier. Emerging companies with niche products are doing business in Japan versus with Japan, thus taking more value out of the market. Nothing in 2011 will inhibit these developments.

9. More resources for innovation

Bioventure companies had a rough time in the latter half of 2009 and all of 2010. Good seeds for new drugs were put on the shelf, venture money dried up, private investors did not open their wallets, and going public is a high hurdle exercise very few can overcome. This stagnation is not only hurting individual companies but also the entire research-based infrastructure. Now there is a glimmer of optimism which I think will build during the year.

10. So many people want to succeed

In my view the current class of managers in both foreign and Japanese companies is the best it has been for the past 25 years (before 1986 I was part of the management class). These are good people who not only want to succeed but know how to succeed. I also see companies, again both foreign and Japanese, who are outsiders to the pharma industry but are focused and determined to be part of the healthcare market and have the resources to get in. These outside companies will push the insiders to take action and not remain complacent.

Living in Kobe a long time ago I learned that if you asked Japanese businessmen, "How is business?" the answer was always "Not good." It took me longer to learn this answer was meant for outside consumption and had little to do with how they ran their companies. The lesson is if you believe the pessimistic response you are going to get run over by your competitors.

P. Reed Maurer started in this business as an MR, the best place to learn how to be optimistic. Pessimists become lousy MRs.

