

Maurer's Healthcare Insight (135)

What Happens When...

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*What happens when all the blockbuster drugs are off patent and generic manufacturers have nothing left to copy?*

In Japan this question will become a reality in 2015, a short four years from now. Launching a blockbuster generic gives a nice upward momentum to sales while "older" generics suffer double digit price reductions, thus inhibiting sales value growth.

To put this another way, the sales of a generic product are on a going out of business curve from the launch date. The only way up this curve is to launch a "new" generic, and if this is not an option the end is in sight.

The economics of Japan's National Health Insurance price system explain why generic companies want to be hybrids, e.g. Sawai's desire to acquire Kyorin and Teva's purchase of Cephalon.

But the current hybrids in Japan, like Nippon Chemiphar, do not have a pipeline of new drugs, so generics provide 100% of their revenue growth. One life sustaining measure is to drive down their cost basis to protect the income line when inevitable price reductions occur. Generic companies that do not cut their costs will die.

*What happens when long listed drug prices are cut to the generic price level?*

We will begin to see this question answered in 2012 and 2014 when drug prices are revised. The immediate impact will be on companies with a high percentage of long listed drugs, i.e. Mochida at 80%.

Another immediate result will be a decrease in the nations' drug bill. To be sure there will be various parties standing in line to receive the savings in the form of higher fees. If they are successful the total cost of health care will not decrease, but the drug cost as a percent of total health care costs will go down.

Some argue that low cost long listed drugs will displace their generic equivalents. If so, this will put generic companies in jeopardy.

The MHLW has a mission to promote a healthy, growing, innovative pharmaceutical industry. Hence it likes the status quo whereby long listed drug manufacturers and generic manufacturers can survive with differential reimbursement prices. But the status quo



will not survive pressure from the Ministry of Finance.

*What happens when the price premium system is maintained beyond 2012?*

The quid pro quo for a price premium was the development of drugs not available in Japan or the development of unapproved indications for approved drugs. This carrot

and stick approach worked well, but will there be a new stick to replace the former unapproved drugs?

It appears the pharma industry will lobby hard for continuation of the price premium system. This is based on the philosophy that no price reduction is better than a price reduction. But someone should consider the relative merits of high initial reimbursement prices followed by gradual price reductions, versus price maintenance followed by a dramatic price cut when patents expire.

Many look at the US system with envy, that is no restriction on raising prices. The initial price goes up, up, up until expiration of patents. Then there is a "falling off the cliff" phenomenon whereby the branded drug loses 90% market share in six months. This works if the drug gone off the cliff is replaced by another new and improved patented drug. Unfortunately, the drug discovery process works at its own pace.

It should also be noted that no one in Japan writes or says the drug industry is greedy. Popular opinion in the US is quite different.

*What happens when the pharma industry bows to the wrong audience?*

Every successful business does whatever is necessary to satisfy its customers. Wall Street bankers, institutional shareholders, and the mass media are not pharma company customers, yet many senior executives spend more time with these people than is warranted.

The real customers are doctors and the patients they serve. Something is very wrong if company MRs are the only people who talk to doctors and patients. Shareholders would be best served if all company employees had a good understanding of their customers' needs.

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*What happens when you don't train global leaders?*

Any research based pharma company cannot survive by confining itself to one market, even if that market is as big as the Japan pharma market. But once the move is made across borders you need people who know how to operate in a system unlike the one they knew at home.

No one will disagree with this statement, yet so few are successful in implementing the actions that result in cross cultural savvy people in a reasonable time frame. Can you think of two foreign companies with Japanese executives in their corporate headquarters? The solution goes beyond teaching English to employees. Or sending an employee for a two week home office training program.

Of course saying what doesn't work is much easier than saying what will work. The best way to learn is to talk with people who are successful global leaders. They are often eager to pass on their experiences.

*What happens when your company tells you it is time to leave Japan?*

There are three possible answers given by foreigners when faced with this question, i.e.

1. Great. I can't wait to get packed and board an airplane. I am tired of earthquakes and radiation scares. I don't understand the language and I feel like an outsider everywhere I go except the American Club.

2. It's too soon. I am just beginning to appreciate how to get things done in this business culture. We just started to get out of Tokyo and to enjoy the heart and soul of Japan. I want to see the actions I initiated bear fruit. Can I stay longer?

3. You can't be serious. The company is doing very well and I love every minute of progress. We are eating the competitors' lunch. It is dumb to move me now.

Since very few stay here until they retire, be prepared to answer this question.

*P. Reed Maurer likes people who ask good questions.*