

## Maurer's Healthcare Insight (140)

## You've Got to Love This Market

P. Reed Maurer

Sssh! Do not show this article to anyone in a home office outside Japan. Why? Because they believe the pharma market here is extremely difficult and you suffer daily trying to cope with its idiosyncrasies. If they find out it is a great place to do business your achievements will not be highly rated and your chances for promotion diminished.

Sssh! Do not show this article to people in the Japanese pharma trade organizations like the JPMA. Why? Because their pitch to the government for more favorable considerations could fall on deaf ears. Also their depiction of this sorry market to foreigners with the intent of keeping them out of Japan might be challenged.

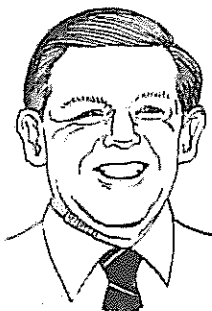
**So - Why Write This?**

The short answer is I fell for the pessimists' logic and told everyone that long listed products would be hit with double digit arbitrary price reductions in April as demanded by the powerful Finance Ministry. The logic was impeccable. Generic drug usage is below forecast, thus not enough money is "saved" in the healthcare budget, so cut long-listed drug prices to make up the shortfall.

The MHLW fought back and secured a 0.9% price reduction, way below the 2.2% reduction in 2010. The "savings" are estimated to be ¥22.5 billion. This is peanuts because total drug expenditure is ¥8 trillion and long listed drugs account for 40% or ¥3.2 trillion.

If the Finance Ministry had its way many companies with a high percentage of long-listed drugs would feel severe pain. But the MHLW protected them from this scenario, thus keeping many in business. Can you imagine the FDA or any European regulatory agency lining itself up with industry to fight against price reductions?

Generics will get hit with total special price reductions of ¥2.5 billion. This again is peanuts compared to the total size of the generics market and will not cause more than a minor irritation for generic manufacturers. However, with tears in his eyes, the Japan Generics Association president, Mr Sawai, was quoted as saying, "The additional price reduction will cause inestimable damage to the generic drug industry."

**But Hold On**

Naysayers will counter with the argument that any price reduction is bad because we should be raising prices to pay for research, blah, blah, blah. If the initial price was low at launch this argument might engender some sympathy, but initial prices in Japan do reward innovation. In dollar terms they are very attractive given the strength of the yen.

In this market new products are rewarded with high prices but old products are penalized, albeit not so much as to cause great suffering. The bottom line is the Japan market does not reward old technology (read long-listed drugs and generics.)

**Moving On to Count Our Blessings**

**MRs:** Thousands of MRs have lost their jobs in the US. Two reasons are commonly cited, i.e. a growing number of doctors refuse to see MRs, and the increase in generics which can be promoted via a phone call to a purchasing manager. In Japan MRs do not lose their jobs and are very well paid. Many are now specialized MRs and doctors continue to view MR visits as useful.

**Legal Fees:** I have no idea how much a US company must budget to pay for lawyers to protect them against whistle blowers, product related adverse reactions that lead to lawsuits, and patent protection cases. However, it is probably risk free to suggest Japanese company legal budgets are a fraction of the US level. A law suit in Japan is typically brought against a company and the government, so they are in the same boat in these rare instances. Hard to imagine industry and government standing side by side in the US or Europe where they are adversaries rather than allies.

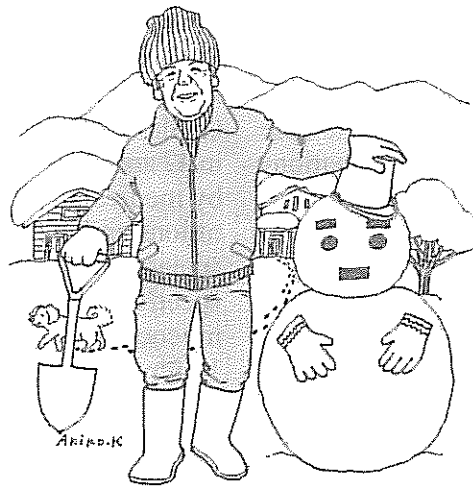
**Insurance coverage:** Everyone in Japan is covered by insurance for their medical expenses including drugs. The patient out-of-pocket cost is 30% of the reimbursement fee. During 41 years in Japan I have never read or heard of anyone deprived of medicine because they could not afford the expense.

**Cost Effectiveness:** Governments elsewhere are basing approval of drugs on various measures of cost effectiveness. Companies are responding with money back guarantees if the drug does not work as recommended. Sounds like the people who sell used cars.

In Japan the approval of a drug is based on safety and efficacy. Yes, innovativeness is rewarded with a higher reimbursement price, but me-too drugs are not denied approval.

**Intellectual Property Protection:** Strong patent protection is assumed in Japan. Furthermore, regardless of the patent status, drugs receive a period of exclusivity to monitor side effects and conduct so-called post marketing surveillance.

**Image:** A politician does not criticize the pharma industry in Japan for his or her own political gain. It simply would not resonate with the general public. Unfortunately companies in the US do not enjoy a favorable image in spite of their very expensive lobbying efforts.



**Miscellaneous:** There are other nonissues in Japan that make this an orderly and honest market. To name several: no parallel trade like in Europe; no influx of counterfeit drugs into the market; some, but very few

cases of fraud in the insurance reimbursement system; drug samples are prohibited so MRs do not need a warehouse to store their samples.

I could go on but enough said. As mentioned in the beginning, it suits insiders in Japan to keep quiet about the benefits of the Japanese pharmaceutical market. Never tell an outsider how good it is to do business in Japan.

*P. Reed Maurer may need personal protection services because of this article (Actually no because this is a very safe society).*