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IS JAPAN'S PHARMA MARKET A BLACK HOLE?



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Foreign pharma companies began a major push into the Japan market in the 1950s, albeit in the form of joint ventures (JVs) since ownership above 50% was not permitted, writes long-time Japanese industry watcher P Reed Maurer, president of International Alliances Limited, in his exclusive column for The Pharma Letter.

Sixty years later far too many home office executives consider the Japan market a black hole. This attitude has serious consequences in failing to exploit the benefits of a presence in Japan.

Black hole

An informal definition of a black hole is a place where money or lost items apparently disappear without a trace. In more scientific terms a black hole is a region in space with such strong

gravitational effects that nothing, including light can escape from inside it. Therefore, it cannot be observed, and once formed, a black hole can continue to grow by absorbing mass from its surroundings.

Think of Japan's pharma companies licensing in products from abroad then refusing to shed light on their development status, the regulatory pathway, or marketing strategies. The licensor cannot see inside and the product will never escape from the licensee's claim of ownership.

Or think of those who do go beyond the event horizon and find everything inside the black hole to be "different." How often do we hear Japan is different? Faced with differences we become suspicious and risk averse because of our lack of understanding. A lack of transparency conjures up a host of reasons to ask more questions, delay decisions, and to hire outside consultants to watch our backs.

Consequences

Success in Japan does not happen overnight, and requires significant resources allocated and controlled by a home office far removed physically and mentally from the market. The reviewers of resource allocation decisions have no experience with living and working in Japan.

One or more consequences follow:

- The senior executive in Japan must take frequent trips to the home office to support her or his case, essentially forfeiting the job of running the Japan business. How do you get to know a market if you are not in the market?
- In difficult times, as when earnings do not meet the expectations of Wall Street and the home office fears the stock price will drop, general austerity measures are mandated. For example, head counts are frozen or reduced, capital expenditures are delayed, and expenses are cut arbitrarily across all divisions.

Woe be the Japan head who tries to argue a case to increase all of the above. Sensitive to personal future promotions in the company he or she goes along and seriously impedes the company's ability to compete in a very competitive market.

- The presidents of foreign affiliates in Japan tend to move in and out on what might be called a frequent basis. To be sure companies do not send older executives to Japan who are in the twilight of their careers. Young men on a fast track are the usual candidates so it is natural to move out and up.

This is fine, but success in Japan depends on a consistent, passionate, and long-term application of good business decisions. Too often people who expect Japan to be a short-term assignment think likewise, suppress their passions and avoid making risky decisions. Hold the fort is safer than venturing outside familiar walls.

- New product development is initiated in Japan later than in the USA and Europe. This delay cannot be made up so when products are approved in the USA and Europe and Japan is far behind, the knee jerk reaction is to blame the regulatory authorities in Japan for the “drug lag.”

The R&D decision makers far away do not know the clinical investigators in Japan on a personal basis so they fear the trials will not be conducted by approved protocols. Any slip up in Japan will not go unnoticed by the authorities in the USA and Europe. Therefore, best to wait until there is solid data from trials done elsewhere before beginning trials in Japan.

Reality

People who are inside the black hole learn Japan is a very predictable pharma market. Differences from the Western model can be understood and are not mysterious. The health care system works for all the people most of the time, and a severe illness does not cause the patient to go bankrupt because the out-of-pocket costs are relatively low.

Those inside the system know new drugs are developed and approved in a timely manner. New drug reimbursement prices are favorable, to use a conservative term. Drugs are not restricted by formularies or government directives, thus diffusion is rapid. We could go on but those who only know Japan as a tourist or through an in and as fast as I can get out business trip will not buy such optimistic scenarios. Why? Because all they hear are the difficulties and differences of doing business in Japan.

Lest I leave you with the impression all foreign companies are failing in Japan permit me to assure you this is definitely not the case. Most are doing very well in a market that rewards innovation. In fact, old technology is penalized with price cuts. Thus, companies with new, innovative drugs do extremely well.

Those who consider Japan’s market a black hole need to look in the mirror and ask some tough questions about why they are outside the system complaining and making the most noise, while those inside are quietly enjoying the benefits of the system. The answer is take action and do business in Japan not to Japan.

The following quote by Plato in *The Republic* may be a good way to end this piece:

“Between knowledge of what really exists and ignorance of what does not exist lies the domain of opinion. It is more obscure than knowledge, but clearer than ignorance.”