

## JAPAN WHOLESALERS: YESTERDAY, TODAY AND TOMORROW

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10-03-2017 [Comments \(0\)](#)[Print](#)

By P Reed Maurer

Pharma companies in developed markets do not consider wholesalers key stakeholders in the delivery of drugs to patients or providers of drug information to physicians. Their added value is not respected thus easily replaced by selling direct to pharmacies, writes P Reed Maurer, long time pharma industry watcher who is president of International Alliances Limited, in his regular exclusive insight for The Pharma Letter.

Not surprising that for a very long time foreign companies doing business in Japan considered the entire business of selling through wholesalers a black hole and entrusted Japanese firms with the responsibility for distribution.

This mistake was gradually recognized as wholesalers themselves evolved to maintain their key position in the physical delivery of drugs and information to pharmacists and clinics. What follows is a brief review of the past, present, and predictable future directions of wholesaler business models.

## **The Past**

When I arrived in Japan in 1970 there were approximately 1,500 pharma wholesalers, all closely associated with one of four Japanese companies, ie, Takeda, Shionogi, Tanabe and Sankyo. Any other company, foreign or Japanese, that wanted nationwide coverage of the market had to tag along behind the big four.

I was with Eli Lilly at the time and Shionogi was Lilly's distributor. When one of our drugs was approved and listed in the reimbursement tariff, it was only a matter of days before every pharmacy and dispensing doctor had the drug on their shelves.

As you think about this system bear in mind patients received their meds either in the hospital pharmacy or the clinic doctors' office. A prescription system whereby patients go to an outside pharmacy to have prescriptions filled came later as clinic doctors stopped dispensing and hospital pharmacies served only their in-patients.

Sales, not marketing which did not exist, focused on pushing product to secure shelf space. Wholesaler salesmen were order takers and delivery personnel. Since hospitals and clinics expected daily deliveries, the sales people were flat out busy and had no time to provide drug information. This was the sole responsibility of pharma company medical representatives.

## **The Present**

In the 1980s and 1990s a massive restructuring among wholesalers transpired, which resulted in four wholesalers with nationwide coverage. Every wholesaler (~100) is affiliated with either Alfresa, Medipal, Suzuken or Toho. None of these four wholesalers is dependent on a single pharma company. Thus, each is independent from the influence of any one company, a state of affairs that is both a bane and a blessing.

There are three major challenges facing wholesalers today. The first relates to the mergers that took place in a uniquely Japanese way. No wholesaler went out of business so the surviving entities had to cope with a delicate integration process that left them with too many people and too many facilities.

Second is the challenge of generics because the government has set a target of 80% of off-patent products switched to generics by FY2018. Currently about 50% of wholesaler drug volume is generic, but represents less than 20% of value. This means that sales per unit are down and gross margins are down, but the cost of distribution is unchanged, thus lowering net operating profits.

The third challenge is to lower operating costs. One way in progress is to introduce automatic warehouse systems, then integrate small to middle size depots into these larger warehouses.

Another cost saving measure is a reduction in sales staff. In the past, as mentioned above, salesmen took orders and delivered products. Currently orders are sent to wholesalers directly and shipping is the responsibility of a separate division or subsidiary.

Finally, a major impediment to reducing distribution costs is the frequency of order delivery expected by pharmacies. At my local pharmacy this is often twice per day. The reason is the lack of space in this crowded country so pharmacy inventory levels are in number of days, not weeks. The good news for wholesalers is they have a lock on distribution. Selling direct by manufacturers is virtually impossible.

## **The Future**

One way out of the inevitable lower margins on distributing generics is to establish specialty distribution services now being done by each of the big four wholesalers. Specialty products are expensive, generally prescribed in a hospital setting or home care facility, often injectable versus oral, and require a cold chain.

High cost of product requires strict supply chain management, traceability of all patients, and prevention of over-stocking. Wholesalers that adopt measures to cope with the unique characteristics of specialty products will prosper.

We will also see successful wholesalers upgrading their sales staff to deliver useful information to health care providers. This can be a value added service for manufactures who cannot cover all doctors in both hospitals and clinics. Add to this the growing number of nursing care centers and rehabilitation hospitals collectively serving an aging population in need of chronic versus acute care. These are bonding together as community care systems with new decision makers such as visiting doctors and nurses managing the required meds via a community formulary.

Wholesalers are in a prime position to influence drug usage in these new centers thus enhancing their position as a key stakeholder in the health care system.

The impact on manufacturers is clear. They must move away from the past practice of using too many wholesalers with the idea of having them compete for business, ie, shelf space. It is already not unusual for a company with specialty drugs to use only one or two of the four major wholesalers.

## **Conclusion**

The good news is the system is no longer a black hole and will be even more transparent in the future. There is no need for any foreign company to forfeit distribution to a third party. The old adage of know your customer has never had more urgency than in today's dynamic, changing market.