JAPAN PHARMA: AND THE WINNERS ARE…

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By P Reed Maurer

Japan pharma market data and company results for FY2018 (ending March 2019) are becoming available, and they paint a beautiful picture for some and best-to-forget message for others, writes long-time Japan pharma watcher and president of International Alliances Limited P Reed Maurer in his exclusive column for The Pharma Letter.

Gone is the time when the pharma industry moved like a convoy of ships at sea. That is, big and small ships, fast and slow ships all steamed ahead together.

Overall market growth

The luxury of competing in a market growing at double digit rates is a distant memory. We now have low single digit growth rates and in a price reduction year like 2018 growth is negative. This has enormous implications for companies that rely on old, legacy products, which are impacted the most by price reductions.

This facet of the Japan market is often not appreciated by foreign executives. That is, innovative new products with higher prices than old products drive market growth. In this way the reimbursement price mechanism within a universal health insurance system promotes innovation. Together with very few restrictions on drug prescribing and dispensing, new drug innovations are rapidly adopted throughout Japan, thus providing a quick payback on R&D expenses. Therefore, new products provide growth and the only path up the price curve.

In FY2018 only six of the top 20 companies experienced year-on-year growth; four of these were foreign owned. It was not long ago when no foreign company appeared in the top 10 list. Today, half of the top 10 and top 20 are foreign. Because of this alignment we do not hear allegations of discrimination against foreign origin products or companies. The playing field has been leveled.

Although overall market growth in FY2018 was less than exciting, this was not the case among different therapeutic classes, to which we now turn our attention.

Therapeutic class growth

A generalization, and no generalization is true including this one, indicates growth accelerated for large molecule drugs such as those that enhance the body's own immune system to fight cancer. Small molecule drugs such as those acting on the renin-angiotensin system to treat hypertension declined at double digit rates. This rapid growth or decline stands out in a market that did not show overall growth.

Another generalization is foreign companies tend to be leading the way in terms of developing large molecule drugs that compete in the fastest-growing therapeutic classes. This accounts for their rise in the company sales ranking.

Among the top 20 companies there is only one generic company (Nichi-Iko) ranked at number 20. Therefore, although the market share of generics has increased, Japan is still a market dominated by brand name companies focusing on innovative, new products.

Impact of geography

The size of Japan's pharma market has resulted in a plethora of companies confined to Japan. There was little motivation to deal with the challenges of operating a business in a foreign land, or to promote people who knew how to run a business in a foreign language and culture.

But even a market as comfortable as Japan cannot sustain consistent growth and access to new innovations without going international in some form. It is surprise-free to note only two of the top 10 Japanese companies have not yet made a concerted effort to expand offshore .

But to be fair, when I joined Eli Lilly in 1964 and was sent to Japan in 1970, International in Lilly was the UK, Canada and Mexico. The center of power within Lilly was the US market. Japan was like an outpost on the far frontier totally reliant on licensees for sales of its products.

It would be short sighted to operate under the assumption that the competition in Japan is locally-owned companies. Parts of this industry, in fact the highest-ranking Japanese companies in FY2018, are well on their way to establishing their wholly-owned operations in Europe and the USA. It is not unreasonable to assume that all the Japanese companies ranked in the top 20 in 2050 will have a significant presence outside Japan.

Impact of the FY2018 results

The first reaction one should have to the FY2018 results is that the Japanese pharma market is changing. This may seem obvious, but to many people Japan is a mystery and they conclude, based on a lack of understanding, that Japan never changes.

Another conclusion comes from the fact that more than one or two Japanese companies are now competing in countries outside Japan. You can only do this if you have the capacity to discover and develop new drugs.

So think of the companies that are not Japanese but rank in the top 20 in Japan.   They are all European or USA-based. This means that new products are discovered in the USA, Europe and Japan. No other country discovers significant new drugs.+

In fact, Japan is a difficult if not impossible market to enter without new, innovative drugs or medical devices. The pricing system simply does not favor old technology. For that matter the culture in Japan is oriented toward what is new – not what is old.

In short, based upon my almost 50 years in Japan, what is happening now in the pharma market is the first indication of a tipping point. Old or even some current descriptions of this market are not instructive and lead to poor judgements as to the best way to build a presence here. Timid, risk-free decisions as to how to compete in Japan will lead to being run over by those who are making aggressive moves even as overall market growth slows. There is much at stake from not establishing a respectable position in Japan.