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Winners in Japan's Pharma market, by P Reed Maurer

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The difference between winning or losing in Japan's pharma market has enormous strategic implications for every pharmaceutical company. There are many reasons why winning in Japan must be given a high priority and consistently pursued with a passion, says P Reed Maurer, long time Japan pharma industry watcher and president of International Alliances Limited. A few of the more obvious reasons are:

- The market is big, second only to the US market, and growing in both volume and value.
- New drugs are discovered in Japan and innovations are rewarded with high reimbursement prices.
- Diffusion of new drugs is not restricted by formularies.
- Health insurance including drug coverage is universal, and access to health care is not denied.
- Demand for medicines is increasing because the population is aging.
- Japanese society demands the best health care the world has to offer and is willing to pay for it.
- Intellectual property is strongly protected.

The list could go on but would only further confirm the attractive features of the Japan market, features that show no sign of diminishing in the foreseeable future. Thus, let's turn our attention to who is winning in Japan.

The pharmaceutical industry

The first big winner is the pharma industry. Held in high esteem by the general public, it is not embroiled in law suits, product quality complaints are rare, politicians do not gain points by bashing the industry, and the government considers the industry a driver of economic growth and jobs in the future.

One mission of the Ministry of Health Labor and Welfare (MHLW) is to promote a viable, innovative, and growing pharma industry. New drugs are approved based on their safety and efficacy, and no attempt is made to restrict access to new drugs. Japan is a regulatory friendly country. In short, it is very, very rare to read any negative comment about the industry in the media from any stakeholder.

Japanese companies who take advantage of their excess cash positions, strong yen versus the dollar, and the low cost of capital in Japan to acquire assets outside Japan. These include early stage new drug candidates, acquisitions that provide a development capability and commercial presence, and access to emerging markets.

Although criticized by some for over-paying to acquire these assets, Japanese shareholders are notably passive, take a long term view, and rarely criticize management decisions. Although the Japanese pharma footprint outside Japan is relatively small, it is growing rapidly and will focus on the USA, South East Asia and India. China is complex in terms of historical and patent protection issues.

Japanese companies who learn to focus their resources. In sales this means not calling on every doctor to sell every product in the catalogue. In marketing it means utilizing new ways of communicating with doctors, and enlisting support of patient groups for new products. In research it means building capability in a limited number of therapeutic areas.

Some companies win by focusing on generics, or eye care, or dermatology, or pain. They stay in Japan and become competitive in niche areas. This concentration enhances their attractiveness as licensees for products from other companies.

Foreign companies

Foreign companies who consistently commit resources toward building up their Japan presence in terms of facilities and, most importantly, people. They understand the complexities of distribution, and know-how to negotiate with Health Ministry officials in product reviews and pricing calculations. They also know the key opinion leaders, decision makers in hospitals, and purchasing managers in wholesalers and chain pharmacies.

In short, these companies are embedded in Japan, know the culture, and completely understand the pharma market and what it takes to succeed. They are typically led by senior managers who commit to Japan with a long term view.

Foreign companies who own their product assets in Japan rather than licensing them out to Japanese companies. They build a presence by self developing and/or utilizing a CRO [contract research organization] to satisfy regulatory procedures for approval and ownership of the marketing license. If their products are in a niche medical area, they build a commercial presence with a limited number of medical representatives.

These companies believe they cannot forfeit Japan to a distributor. If their products must be promoted to a wider medical audience, they partner with a Japanese firm, but maintain their direct access to the key opinion leaders.

Emerging bioventure companies are not yet winners in Japan, but in my view are future winners. There are two reasons:

1 The ideas or seeds for new drugs are constantly emerging from universities, institutions, and individuals. This will continue because the infrastructure for creating seeds is so well developed.

2 The government is getting its act together to funnel more money into basic research, in part prompted by the recent Nobel Prize awarded to Dr. Yamanaka of Kyoto University. The discovery and development of new drugs is now a national priority.

Winning is not easy

With maybe a couple of exceptions, the market share of foreign firms in Japan does not match or exceed their global market share. Too often Japan was considered a black hole by home office senior executives who had no experience of working and living in Japan.

Language and cultural barriers prevented companies from implementing strategies and tactics used successfully elsewhere. Executives were sent to run the Japan operations as a step up the corporate ladder, thus their vision for Japan was short term.

Competition is tough in Japan. Learning to win takes a dedicated, total all-out effort. Many companies in other industries gave up on Japan only to face Japanese competition outside Japan because they forfeited the game in Japan. Winning foreign pharma companies do not make this mistake, Mr Maurer concludes.