LOOMING QUESTIONS FOR JAPAN PHARMA

By P Reed Maurer

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For a very long time executives visiting or living in Japan agonized over what they perceived as resistance to change and a drawn out, time consuming decision-making process, writes long-time Japan pharma watcher and president of International Alliances Limited P Reed Maurer in his exclusive column for The Pharma Letter.

Yes, a bottom up, consensus management style takes more time than a top down, command process. What is often missed is the rapid, effective execution of decisions. One example is the evolution of the distribution sector.

When I arrived in Japan in 1970 there were 1,500 pharmaceutical wholesalers. Each one had limited local coverage of hospitals and drug stores. Today there are basically four wholesalers, each with national coverage. This consolidation resulted in only one wholesaler going bankrupt and closing shop. All others merged through friendly agreements. There were no hostile take overs.

A consensus style of decision-making fits the homogeneous nature of Japanese society; whereas diversified societies must rely on the majority rules to move forward.

With this background in mind, let's look at four different segments of the pharma industry in Japan. The mid to small size Japanese companies, foreign affiliates, the large Japanese companies, and local conglomerates with pharma operations. Each segment, in its own way is reaching a tipping point in how they conduct their business.

Small to mid-sized Japanese companies

For a long time the Ministry of Health, Labor and Welfare urged these firms to focus on specific therapeutic areas. This advice went unheeded because their long-listed drugs provided reasonable sales and profits. Furthermore, many got into generics which added to the sales line.

This strategy is now unravelling as the Finance Ministry puts pressure on drug prices, particularly old drugs which include generics. Without a pipeline of new drugs their business strategy is not sustainable.

But to date it continues to be business as usual.   Many are family managed and the need for change is not a priority. So what will happen? Mergers will not be synergistic. Acquisitions are not attractive. Licensing in of new products is a very competitive game. A tipping point is looming but the players are following the same old game plan.

Foreign affiliates

With few exceptions the foreign affiliates in Japan are on a roll. Why? Because they have new products and Japan's market loves something new. Their growth is not inhibited by an inability to hire good people. The old days of life time employment which kept people tied to one company are gone. Young people want the challenge of developing and selling drugs that make a difference in the lives of patients.

This would seem to be the best of times. Yet the senior managers are obsessed with pricing pressures. Their industry associations talk price, price, and price. No doubt it is a fact that in Japan prices always go down, rarely up. This is hard to accept by USA based companies who routinely raise prices in their home market.

Price is important, but the industry would be wise to counter any threat to the features of this market that foster innovation. Innovative drugs get high prices and their diffusion is not inhibited by formularies or payer groups. Following approval new drugs are available within days everywhere in Japan. No hospital or drug store chain has the power to restrict usage.

Large Japanese pharma companies

Every waking hour of large company managers is spent thinking about how to expand outside Japan. They are lords of all they survey in their home market but small players in markets outside Japan. They are not content to stay home but have much to learn about competing in cultures very different from what they know so well in Japan.

Outside as well as inside Japan growth is driven by new products. Large companies have invested heavily in alliances with both academia and emerging companies in the USA to access new ideas. Bridges to new ideas in Japan have not been neglected. Innovative drugs originate in the USA, Europe and Japan. The rest of the world doesn't matter.

If these alliances do not replenish pipe lines, then acquisitions are an alternative strategy. Consider the current Takeda (TYO: 4502) deal to acquire Shire (LSE: SHP). Availability of money does not appear to be a restraint on Japanese firms who are acquisition minded.

It should not be a surprise to anyone if others follow Takeda on the acquisition pathway toward establishing critical mass in the major developed markets of the world. This tipping point is imminent.

The wanna be pharma company conglomerates

Industry titans in Japan have always looked on pharma companies with envious eyes. Many decided to jump in with the intent to conquer the industry given their abundant resources. Think of the beer companies, Japan Tobacco, chemical companies, and consumer product companies like Fuji Film and Ajinomoto.

The results were far less than expected. Beer companies are out, Ajinomoto put its business into a joint venture with Eisai (TYO: 4523). Teijin is in the process of winding down its capital tie up with Kyorin. Fuji Film is terminating its joint venture structure with Taisho.

None have achieved much success outside Japan and their research labs are not churning out a flow of new drugs. It would appear they do not have the patience for the long lead times inherent in going from the lab bench to a patient.

Given the examples cited above it may be that the tipping point to exit the pharma business has arrived. This is a severe loss of face for Japan Inc whose members are feared competitors worldwide.

In short

The Japan pharma market is entering a period of great change which means opportunity for those who dare to cast off the heavy anchors of past practices. Managers who believe Japan never changes will be like passengers who arrive at the airport in time to see their plane taking off.