

2015 life sciences outlook Japan

The Japanese pharmaceutical market is the world's second-largest, with 2013 sales estimated at \$115 billion. Japan accounts for a little less than 10 percent of the global pharma market, compared with 38.4 percent for the U.S. and 20.7 percent for Western Europe.¹

Japan's rapidly aging population—just over a quarter of the population was aged 65+ in 2013, up from 12 percent in 1990, and this age group accounts for over 50 percent of the country's health care costs²—is expected to drive demand for pharmaceuticals in 2014-2018. However, modest economic growth, drug price cuts, and pro-generics policies will likely keep pharma revenue increases in check—growth is expected to average 2.2 percent annually, with revenues totaling \$128 billion 2018.³

Japan's pharmaceutical market =
\$115 billion in 2013

Growth rate = 2.2 percent annually
in 2014-2018

In Japan, every citizen is required to participate in the National Health Insurance (NHI) scheme and the majority of health care spending is publicly funded. The government has begun a number of initiatives to control spending, such as encouraging use of cheaper generic drugs, self-management of chronic diseases, and preventive care. A biennial NHI pricing review usually results in price reductions. In addition, a new health technology assessment (HTA), expected to be implemented in 2016, could make it more difficult for life sciences companies to obtain competitive launch pricing (and market access) unless the new treatment is deemed innovative and cost-effective. Also, while the use of cost-saving generic drugs has been proportionally lower in Japan than in other developed markets, the government has strengthened the incentives for healthcare providers to prescribe generics.⁴

In positive pricing news, Japan's April 2014 biennial NHI review extended a temporary premium for new drug development that was introduced in 2010. The premium rewards R&D innovation by supporting prices for patented drugs that would otherwise be reduced in the biennial revisions. The premium is popular within the pharmaceutical sector, which would like to make it a permanent feature to support future R&D.⁵

A growing sense of urgency spurred by pricing pressures and competition from nontraditional players is compelling some life science companies operating in Japan to transform their business models in an effort to optimize costs and protect market share. For example, some mid-sized pharmaceutical companies are trying to establish a position in specialty pharma. Numerous companies have

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¹ *Industry Report, Healthcare: Japan*, The Economist Intelligence Unit, June 2014

² *Ibid*

³ *Ibid*

⁴ *Ibid*

⁵ *Ibid*

boosted internal R&D spending and expanded external alliances to develop a more robust product pipeline. Others have sold their domestic manufacturing plants to contract manufacturing organizations (CMOs) or have established plants in emerging countries where labor costs are lower. In addition, companies are using multi-channel and digital marketing to help rein-in marketing costs. Although the number of medical representatives (MRs) in Japan has grown steadily over recent years (56,000 in 2007 to 66,000 in 2013), many companies are seeking a more balanced allocation of their marketing resources by using MRs to promote new products and digital channels for established offerings. This move is also important because

growing government and media scrutiny of the relationship between life sciences companies and health care providers is expected to drive more transparency, changing long-established practices in personal promotion to providers by pharmaceutical company representatives.

Expanding their role in the health care value chain is another way life sciences companies in Japan are working to ensure profitability and growth. Some are making the transition to health care solution provider (rather than simply a treatment provider) by offering services or solutions that span a disease life cycle (from diagnosis to chronic/ maintenance phase).



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⁶ MR Education & Accreditation Center of Japan

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