

Japan Pharma: SG&A trends & the impact of COVID-19 on Commercial activities

Virtual Seminar

11 September 2020

Today's agenda

8.00 – 8.05am	Welcome & Introduction	Pankaj Arjunwadkar, Partner – Deloitte
8.05 – 8.35am	Our perspective on SG&A Trends and the impact of COVID-19	Christian Boettcher, Partner – Deloitte Peter Bristow, Manager – Deloitte
8.35 – 8.45am	Guest Speaker	Jim McCready, President – Adobe Japan
8.45 – 9.00am	Q&A	Led by Deloitte
9.00 – 9.30am	Virtual Networking	<i>*Attendance optional</i>





Introduction

Cost Optimization and the Global Impact of COVID-19



Pankaj Arjunwadkar
Partner, Deloitte

Global Business Impact

The economic impact of COVID-19 is truly unprecedented in recent history, and the effect will have a permanent effect on how businesses operate

Early indicators suggest Covid-19 could be significantly worse than prior downturns

 Economic activity is on a steady decline

 Unemployment is rapidly increasing

 Industries are facing major disruption

What can we learn from the past?

13%

Post-recession growth

Following the 2008 recession, organizations that successfully **reduced costs** to improve **operational efficiency** and **reinvested the savings** into new opportunities, posted a **13% post recession growth rate**.

The Pathway Through the COVID-19 Downturn

APPROACH

1 Cost Containment

Cash flow issues can emerge and prompt organizations to look for ways to reduce costs. To begin containing these, identify the areas that are non-essential and have minimal impact on business continuity.

Considerations

- Manage cash flow optimization
- Optimize project portfolio
- Reduce discretionary Spend
- Manage external spend

2 Operating in the New Normal

After implementing the necessary measures to contain costs, organizations can pay more attention to protecting key revenue streams and business continuity

Considerations

- Maintain Customer Focus
- Unlock flexibility through workforce optimization
- Optimize the supply chain

3 Emerging from the Pandemic

As the economy begins to rebound, organizations need to continue to ensure that as revenues grow, costs remain within the necessary threshold.

Considerations

- Industrialize new products and services
- Realign the workforce
- Optimize external spend-management

How are Organizations Looking at Cost Optimization?

3 common approaches to cost-optimization in the current environment



LIQUIDITY CRUNCH

Rapid cost reduction in order to meet short term liquidity requirements

Cost Categories

- Headcount
- Real Estate



EARNINGS CRUNCH

Strategic cost reduction in order to reduce the negative impact on short and medium term earnings

Cost Categories

- Headcount
- Real Estate
- IT

Reduction to IT costs in certain areas, re-purposing of IT investment to insights and Automation



OPPORTUNISITIC

“Don't let a good crisis go to waste” approach. Use COVID-19 as a burning platform to drive transformational change

Cost Categories

- All structural areas

Focus Areas

- Speed
- Business Insights

Our perspective on SG&A Trends and the impact of COVID-19



Christian Boettcher

Partner, Deloitte

Peter Bristow

Manager, Deloitte

Overview of Japan

Companies in Japan are optimizing costs and accelerating innovation in response to changes in government priorities and policies

01

Focus on cost reduction

- A full HTA for drugs is being put in place to ensure that only the most cost-effective treatments are used
- The MHLW is also encouraging generic substitution and increasing the frequency of its price reviews, which currently happen every two years

▶ *The government's push for reduced pricing has motivated pharma to **actively welcome new innovations** to increase efficiency and patient adherence.*

02

Establishing a digital ecosystem

- Japan is currently developing a next gen health system that is more patient-centric, digital and data-driven
- As a result, healthcare providers and stakeholders are establishing a digital ecosystem that supports data sharing and interoperability

▶ *The pressure on healthcare firms to **provide innovative digital solutions** has increased to support interconnectivity and respond to government changes.*

03

A new system of continuous care

- There is increasing focus on population health and preventative care in order to minimize healthcare costs
- Japan has established an "Integrated Community Care System" that combines healthcare, housing, and other support services to provide continuous care in the community instead of hospitals

▶ *Organizations must consider the entire patient ecosystem and how they can **support continuous delivery of care in various settings**, not just within hospitals.*

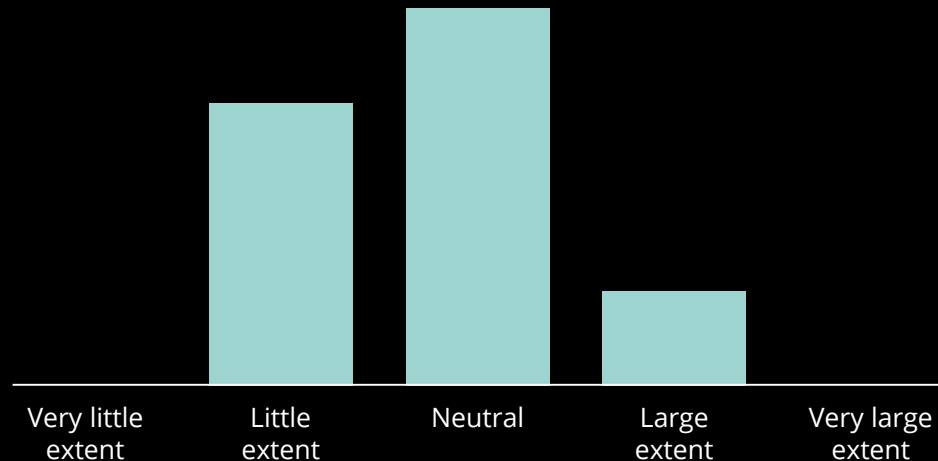
Survey findings

Looking forward, companies are focused on maintaining/reducing costs while also seeking opportunities for digital transformation and innovation

71%

of respondents expect only a small increase in operating expenses over the next 12 months

To what extent is your current or planned investment in digital sufficient?



Top risks for next 12 months

- 1 Price/cost/margin pressure
- 2 COVID-19
- 3 Competitive pressure

Response to COVID-19

- 1 Alternative work arrangements
- 2 Reduce spending
- 3 Diversify suppliers & distribution routes

Top priority for next 12 months

-  Digital transformation
-  Resource allocation
-  Ensuring market access
-  Reducing costs
-  Ensuring supply
-  Launch new product
-  Open innovation opportunities
-  Exceed financial targets

SG&A Benchmarking

Our 2019 benchmarking revealed several key trends across participating companies, including an increasing shift towards more digital activities



Digital Marketing

Shift towards digital marketing activities (including eDTL), and reducing investment in printed materials and storage.



Online & Hybrid Events

More events are being held either fully online or in hybrid setting (co-located group of MRs and physicians dial into online meeting).



New Ways of Working

MRs and MSLs have increased remote engagement with physicians, reducing the need for extensive travel & field offices.

“The coronavirus, and its economic and social fallout, is a **time machine to the future.**”

Changes that many of us predicted would happen over decades are instead **taking place in the span of weeks.**”

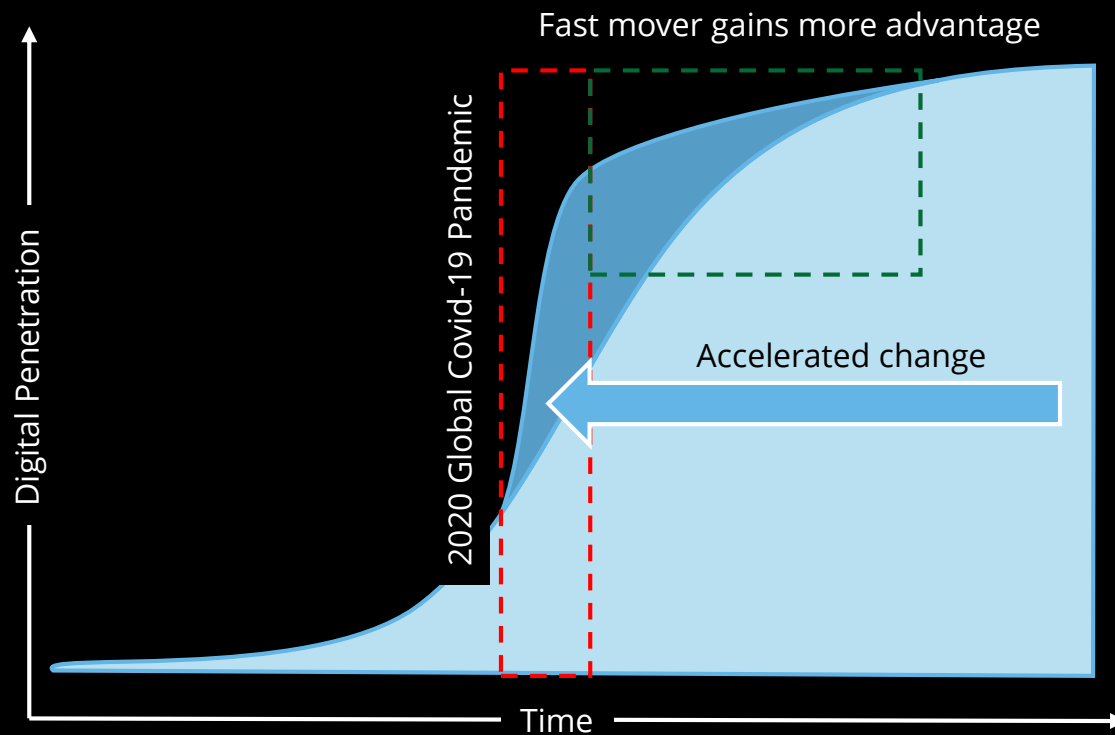
ANNE-MARIE SLAUGHTER

New York Times, March 21, 2020



Impact of COVID-19

COVID-19 is likely a critical factor in accelerating the digitalization of the medical industry in Japan and globally



We can expect to see rapid changes in how healthcare is delivered in Japan, including:

- The digitalization of information gathering by medical professionals
- Penetration of digital technology (e.g. telemedicine, medical apps)



The companies that respond quickly and lead the change can expect to see benefits quickly.

Impact of COVID-19

It has already had profound impact on promotional activities and there has been a significant shift from face-to-face visits to remote engagement

92%

There has been a 92% decrease in the usual number of face-to-face MR visits to hospitals

2%

However...

Only 2% reduction in the total number of promotional activities in Japan

90%

90% of total promotional activities are being conducted remotely (e-detailing or telephone)



Impact of COVID-19

While most companies are rushing to “go digital”, there are some key considerations that will enable enduring success



Understand your customer

- Spend time understanding your **customers' digital preferences** and **level of comfort** with new tools & modes of engagement – not everyone will feel the same
- This will allow you to engage and deliver value via digital technology in the most effective way – “**right content, right timing, right channel**”

Leverage new and existing data points

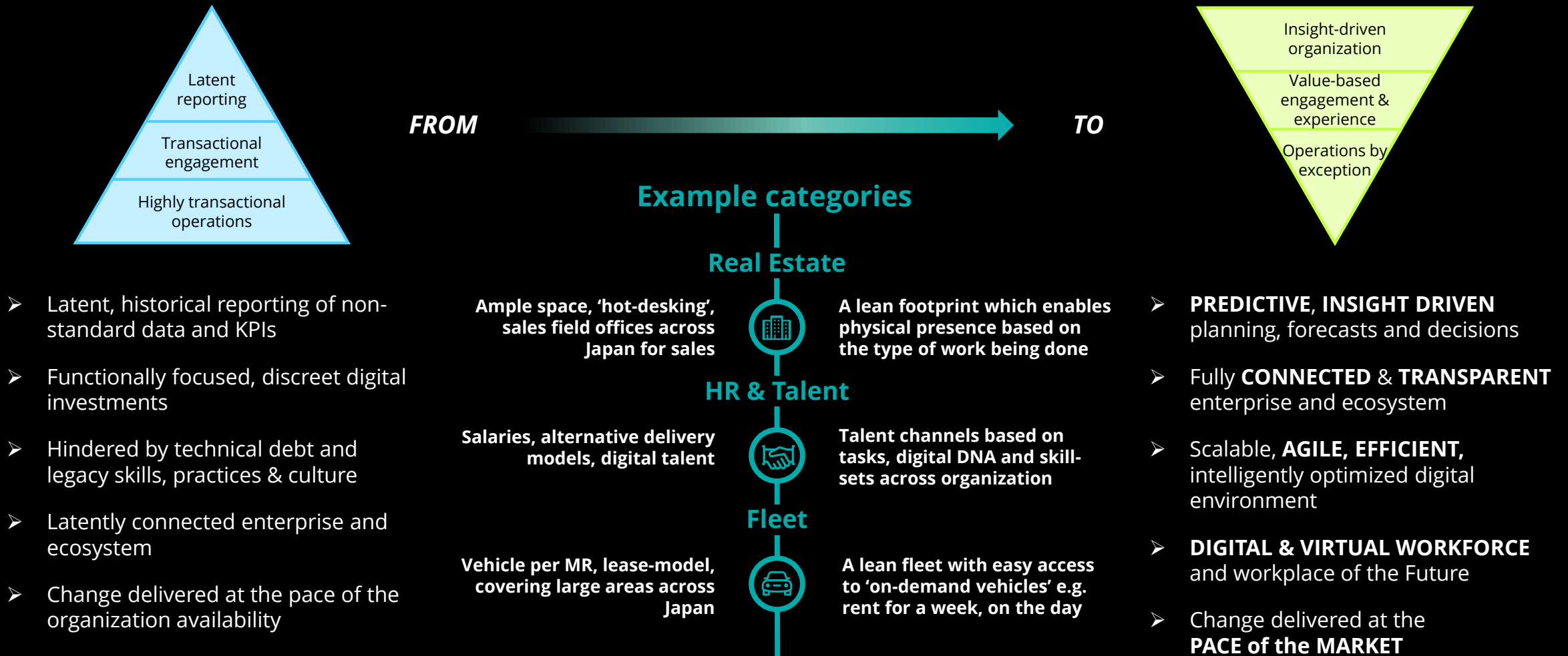
- There is an **explosion of new data sources** due to increased digital activity
- This provides an opportunity to **enhance your CRM database** with both qualitative and quantitative insights from various disparate sources, e.g. conversations, web portal activity, emails, chatbots

Identify and manage all risks

- Critical incidents may occur if system and process changes happen in a rush
- Risks should be identified and effectively managed – especially **data privacy and security risks** as you begin to use more digital tools and data sources

Impact of COVID-19 on G&A

The widespread impact of COVID-19 will accelerate the definition of 'what good looks like' across G&A spend categories





Q&A

Thank you!

**Please take a moment to fill out the
feedback survey.**



*If you're free, please stay for a virtual
networking session with your peers*



Deloitte Tohmatsu Group (Deloitte Japan) is a collective term that refers to Deloitte Tohmatsu LLC, which is the Japan member firm of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee, and firms affiliated with Deloitte Tohmatsu LLC that include Deloitte Touche Tohmatsu LLC, Deloitte Tohmatsu Consulting LLC, Deloitte Tohmatsu Financial Advisory LLC, Deloitte Tohmatsu Tax Co., DT Legal Japan, and Deloitte Tohmatsu Corporate Solutions LLC. Deloitte Tohmatsu Group is known as one of the largest professional services groups in Japan. Through the firms in the Group, Deloitte Tohmatsu Group provides audit & assurance, risk advisory, consulting, financial advisory, tax, legal and related services in accordance with applicable laws and regulations. With about 11,000 professionals in nearly 40 cities throughout Japan, Deloitte Tohmatsu Group serves a number of clients including multinational enterprises and major Japanese businesses. For more information, please visit the Group's website at www.deloitte.com/jp/en.

Deloitte provides audit & assurance, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 245,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

