

Leading change in the Japanese pharma market: Innovating for the future in an uncertain present

Jacques Nathan, president of Sanofi Japan, discusses what's ahead for his changing sector.



The president of Sanofi Japan, Jacques Nathan, is leading his organization through a phase of rapid portfolio transition at a time when the market is also changing. In this interview, he shares his perspective on the outlook for the Japanese pharmaceutical industry and takes a position in the ongoing debate between cost control and quality of care.

McKinsey: *We often talk about change in the Japanese pharmaceutical industry. Do you see that happening in the real world?*

Jacques Nathan: Yes, and it is fundamental. The Japanese universal-healthcare system is a cornerstone of society such as only a few European countries have. Societal growth since World War Two, and even social stability, one could argue, have been linked with a healthcare system that has consistently provided universal, reliable, and very high-quality care. The hyperaging society of Japan and the accelerated introduction of new products in the last few years are putting a significant strain on this system. For the first time, this is forcing a debate on reform and economic sustainability.

This shows up in our operations in many ways. Physicians and patients feel more responsible for the economics of healthcare, and we need to be better prepared to communicate the value of our products. Public officials are rapidly building the capabilities to assess the value of healthcare products and engaging more directly with manufacturers on this topic.

McKinsey: *Do you think this fundamental challenge will rebase the market in Japan?*

Jacques Nathan: The central position that the healthcare system occupies in the Japanese social system makes the debate on reform difficult but also makes the system very resilient. I believe the Japanese pharmaceutical market is and will remain

a very attractive and innovative one. The economy is structurally robust and has recently been showing signs of a return to growth. There is a long-standing culture of innovation, both in new-product creation and rapid adoption, across sectors. Physicians, patients, and their families are highly educated and demanding customers. These traits are deeply rooted.

In the short term, we are feeling some pain as the market adjusts. Japan is still working through how to identify the products that deserve full public coverage. Recently, this has led to some pricing decisions and optimal-usage guidelines that have caught the industry by surprise. Businesses do not like surprises. We expect some of this volatility to remain. When we look at countries that have gone through the same process—for example, France, Germany, and the United Kingdom—it took them time to find the right model to assess product value and make pricing, access, and reimbursement decisions. It is only a matter of time before Japan finds its model.

McKinsey: *How do you see the market evolving?*

Jacques Nathan: This is a difficult question, as the atmosphere right now is that of a trial period, with many scenarios still open. The fundamental tension is between the sustainability of spending in mature products, the reward for innovation, and the desire to continue to elevate the standard of care. I believe in the end we will have three main market segments: one, a high-value, innovative segment; two, a segment focused on prophylaxis; and three, a primary-care segment focused on sustainable chronic-disease management.

All segments will be publicly funded but to a different degree. Each will have products approved by an HTA [health technology assessment] authority, with commensurate value-demonstration hurdles. The question is whether the care-delivery system will evolve in a similar direction in a country with no

proper primary care with a gatekeeping function. In the short term, we may see pharmaceutical products as the primary target of cost-control measures, but soon a more holistic review of the care-delivery system will be required to achieve a meaningful and sustainable impact.

McKinsey: *Are pharmaceutical companies operating in Japan changing their go-to-market model in response to or in anticipation of this?*

Jacques Nathan: In all honesty, despite the rhetoric, I still see little change in action. The number of medical reps in total is declining only slowly. The pricing reform is recent, and companies are still figuring out what the implications are. As a result, many changes are being planned in boardrooms rather than being visible in the marketplace.

I see three main areas being challenged. The first is the promotional model. The number of medical reps in Japan is still too close to that of the United States, and that is obviously not sustainable. Many companies are planning to move to more qualified sales forces, with deeper knowledge and a more efficient deployment model driven by data and analytics. They are also strengthening their medical function and setting up digital capabilities to bring better knowledge to physicians in a more flexible way.

The second is distribution. The distribution and wholesaler system in Japan is a unique legacy that needs updating. The evolution of prices, especially with the annual cuts now a reality, makes it unsustainable for long-listed products. And the added value that wholesalers can deliver to innovative products is limited beyond logistics and distribution.

The third is clinical development and R&D investment. This is a big cause for concern. R&D is a significant and long-term investment, especially in pharma. Companies invest when conditions are

predictable. The regulatory and access changes of recent years have been very successful and reduced the historical “drug lag,” and now Japan competes with the United States in terms of time to launch. At the same time, the pricing reform and some of the recent optimal-usage guidelines have introduced significant unpredictability. The sooner the new pricing and HTA frameworks are clear, the better for Japanese patients.

McKinsey: *How is Sanofi adapting?*

Jacques Nathan: Sanofi has a long history as a leader in primary care in Japan. We are progressively moving to specialty care and will have multiple launches in the next years. Even with a good product pipeline, this requires a significant shift in our resource allocation and in how we work. We need to transform ourselves from a very successful primary-care organization into an efficient and innovative specialty-care one. We made digital our priority to offer a new experience to the physicians who use our products and to support them more effectively. And we are adopting some of the principles of agile to help us be more adaptive and in tune with the needs of our customers.

McKinsey: *One of your responsibilities is to lead the general-medicine business of Sanofi. What is your view on the sustainability of a branded mature-products business?*

Jacques Nathan: Over time there will be much less place for LLPs [long-listed products]. This is a global trend, and Japan is aligning. The industry is still in transition between the blockbuster era and the new normal. Mature-products divisions exist, but over time this space will be almost fully genericized, in my opinion.

McKinsey: *You hold an international leadership role. How do you see the competitiveness and weight of Japan on the global stage?*

Jacques Nathan: Japan is a very advanced economy, innovating in areas of the IoT [the Internet of Things] and AI [artificial intelligence] and with a massive opportunity in healthcare data analytics, with solid economic foundations and a discerning customer. Its high-quality social-healthcare system is a model, certainly in Asia, where other countries are moving in that direction, with significant challenges. Yet Japan right now is punching below its weight on the global stage. Part of this is due to the emergence of China and the continued attractiveness of the US market, but part of this is self-inflicted. Public officials and regulators should

clarify as soon as possible the pricing framework but also, and perhaps more important, communicate clearly that Japan remains a robust healthcare market and a destination for innovation. What is at stake, in the long run, is the availability to Japanese patients the most innovative care. ■

Jacques Nathan is the president of Sanofi Japan.

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