

What's next for Japan's pharma market

Interview

Japan's healthcare system ...

... is well known for its quality and for serving the population well. However, the country faces the demographic challenge of a superaging society and an intensifying chronic disease burden. Here, McKinsey's Christoph Sandler speaks with Jannie

Oosthuizen, President of Merck & Co in Japan, (known as MSD outside the United States and Canada), about capitalizing on early detection rates, collective solutions, and how collaboration can drive innovation in this context.

McKinsey: *How do you see Japan in terms of innovation? What has it achieved, and what are the obstacles hindering the country from reaching its full potential?*

Jannie Oosthuizen: Historically, Japan has such a strong capability in basic chemistry and basic research. In terms of small molecules, we have seen a lot coming out of Japan going back many, many years. As innovation has shifted significantly to biologics, Japan hasn't necessarily shifted at the same pace. It's not that there are no biologics coming out of Japan, but certainly it's not at the level where small molecules used to be. However, there is certainly a determination to close that gap, and Japan is focusing and increasing efforts in certain areas. We can see this from some of the agreements that are developing around oncology, with the National Cancer Center and some Japanese companies. Going forward, the world will still need both: a small molecule that can benefit broad populations as much as targeted therapies that will most likely be biologics. And there is still a huge unmet need that can be fulfilled with small molecules coming out of basic chemistry, research, and discovery.

McKinsey: *Does anything else come to mind about the Japanese healthcare system? What does Japan excel at compared with other countries?*

Jannie Oosthuizen: Japan has a well set up and truly universal healthcare system. Take for example the annual health check; in certain areas we see the benefits of that. With the level of access to an annual health check, early detection and potential early treatment or prevention of worsening conditions is well within grasp—it is probably happening more than in other countries.

Still, Japan can probably extract even more benefit from this: for example, by taking it all the way through to delivering the most effective solutions. We know in diabetes, for instance, that a lot of the potential for early diagnosis of type II diabetes doesn't necessarily translate into early treatment of the condition. However, I think that access to healthcare and the resulting high level of

prevention is very distinctive of Japan. Even for tough-to-detect cancers such as lung cancer, Japan has some of the earliest detection rates. I think there really is something to be said about leveraging a system like that.

McKinsey: *Five years out, what do you predict to be the big changes?*

Jannie Oosthuizen: I hope five years from now the entire healthcare ecosystem will have recognized that the real enemy we are fighting is chronic disease, not some individual cost items here and there. Today it feels like the issue in healthcare is the cost of medication, of treatment. We need to change the perspective—in a superaging society, the real thing we are fighting is the huge burden coming from chronic disease. We need to step back and ask ourselves: how do we address this challenge collectively?

McKinsey: *In terms of collaboration and alliances with Japanese institutions, do you see this happening more frequently in the future, or less often?*

Jannie Oosthuizen: I think a lot of these collaborations were driven by commercial reasons—around a certain product—especially in the primary care sector. You had to scale up but you didn't necessarily have the portfolios, hence you brought portfolios together, bought some critical mass to get to a certain level of scalability. In Japan, multinational corporations (MNCs) needed local companies more than local companies needed the multinationals. In the United States, Japanese companies needed MNCs more than multinational companies needed them. In the specialty area, we have seen less of that, less of the need; it was more concentrated, more focused, more profitable. Hence the shift to biologics and increased specialty focus, where you find the better growth—that's why we've seen fewer commercial collaborations or partnerships.

What we are seeing now is: "How do we continue to drive innovation?" It's through collaboration that we can, if we put our forces together, potentially develop an asset for more indications. In the area of oncology, we see combinations becoming a critical factor—this drives a different type of collaboration. Especially in oncology, the question is: how are we going to continue? And this will take us in interesting directions where you have to combine forces, whether it is for combinations or to extract full value from developing more indications from existing assets. Overall, we'll see a shift in the purpose behind these collaborations.

McKinsey: *What about collaboration initiatives at MSD—with other companies, academia, and biotechs?*

Jannie Oosthuizen: It became public a few months ago: together with Teijin, we signed on a very early-phase Tau compound for Alzheimer's. We still sign these really early deals. It is an area of interest; it's a promising technology. We will pursue it in Japan as much as anywhere else in the world. A number of our vaccine strings come out of Japan—they're developed here; it's our product, a Japanese invention. Like a lot of our peers, we have an active focus on building networks to find out what's going on, to talk to people, and to continue listening. We also have a mechanism where scientists can come to us to pitch what they have and what they think we might be interested in.

McKinsey: *How important is cross-border investment between Japan and other countries— from the perspective of foreign investment into Japan and also for Japanese companies seeking to expand globally?*

Jannie Oosthuizen: There is certainly cross-border investment around technologies—that's happening in different shapes and forms. On an asset level, we know a lot of development is fragmented: for example, we might see a Japanese company with an asset that it is willing to develop it for Japan and Asia but needs some help in Europe and the United States. In terms of true M&A or larger investment into Japanese companies from outside, there is room for growth. If you look at Japan-based companies, I recall the biggest proportion of sales coming from outside Japan at around 60 percent, so I think there is a lot of room for absolute growth as well as a bigger contribution from expanding into markets outside of Japan. This situation provides opportunity, and we see many companies doing a lot to drive growth through international expansion. I have always thought that Roche and Chugai have a very interesting model in Japan; it seems to be working. So, yes, I think there are some examples and, most probably, opportunities.

McKinsey: *How do you see Japan on the world stage? In terms of its role globally, have there been any important developments? What is Japan's competitive advantage?*

Jannie Oosthuizen: Japan is the second biggest market in the world; hence Japan is significant for our industry. You cannot think of developing anything without Japan being part of that discussion and decision—Japan carries a lot of weight within every company that operates in this industry; there's no question about that.

Secondly, on a regional scale, Japan wields a lot of influence. Japan plays a significant role, but the question is: how is Japan going to play that role moving forward? Is it just going to be by default, or is Japan going to take an active, conscious position moving forward?

Thirdly, there is no way that we are going to be able to continue to develop innovation without the United States, Europe, and Japan all contributing in a fair way towards that. The question is: what is the fair balance? How are these developed nations contributing to the development of innovation in a sustainable way? How do we fight infectious diseases? What are the incentives we provide? If Japan, Germany, the United States, the United Kingdom, France don't move on these issues we don't get anywhere. It is critical that these countries—including Japan—increasingly not only just have a view but really drive towards helping to make decisions on how we move forward.

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