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Pharma companies focus on supply chain in Japan

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Singapore: Pressures felt in Japan as a result of the country's aging population, drug price revisions and patent expiries have compelled pharmaceutical industry leaders to rationalize their sourcing and distribution, and increase operational efficiency, according to a new report by GBI Research.

The new report states that market competition has led to a monopoly being held by a few wholesalers, who effectively control the country's pharmaceutical distribution market.

GBI Research's analysis shows that supply chain participants in Japan still follow a traditional route, whereby drugs manufactured by pharmaceutical companies are distributed solely through wholesalers to patients via retailers. Drug prices are fixed and controlled by the government; however, the price at which the manufacturer sells the drug to the wholesaler depends on negotiations between both parties. Similarly, pharmacy margins depend on negotiations between the wholesaler and pharmacy. All key players in the supply chain suffered losses due to revisions to National Health Insurance (NHI) drug prices in 2010, which demanded they compromise on profit margins.

The introduction of a price quotation system led competition between drug wholesalers to escalate, while profitability decreased, and this led to mergers and reorganizations which aimed to lower costs and create savings to pass on to manufacturers. As a result, the number of pharmaceutical wholesalers in Japan has fallen by 45 percent over the last decade, and just a few companies now remain in operation. Four wholesalers, namely Medipal Holdings, Alfresa Holdings, Suzuken

and Toho Holdings, accounted for 90 percent of the overall pharmaceutical distribution market last year, generating a total revenue of JPY 7.3 trillion ($87.8 billion).

The Pharmaceutical Affairs Law (PAL) regulates the manufacture, marketing and distribution of pharmaceutical drugs and medical devices in Japan. Its rules and regulations make it difficult for foreign manufacturers to establish themselves in the country, leading to significant M&A activity. The key regulators in Japan are the MHLW and the Pharmaceuticals and Medical Devices Agency (PDMA).

However, this national independence proved an issue in March 2011, when the Fukishima disaster highlighted issues in the country's supply chain. Pharmaceutical production activity became stagnant in certain locations due to a restricted power supply and damage to distribution centers, creating a lag in vital medical products. Industry leaders have since reformulated their supply chain strategies in response to these catastrophes - for instance, Suzuken has formulated guidelines to ensure the supply of pharmaceuticals at times of major disaster, looking to construct a cooperative relationship with hospitals and pharmacies so that products can be delivered directly if supervising branches are not functioning.