

Life Sciences Multinational companies private roundtable

March 17th 2017

Welcome!

Thank you for taking time out of your busy schedules to attend today.

In this meeting we will present our view on how pharmaceuticals and wholesalers interact and discuss if some of the existing structures and practices can be changed. Furthermore we will do a short catch up on the topics we discussed in our previous meeting.

We hope that you will participate actively in the discussions and look forward to hearing your thoughts and ideas on the Japanese life sciences industry.



Recap of December`s Life Sciences breakfast

Topics discussed in the last meeting

- Salesforce performance management
 - Assessing MR performance and creating appropriate incentive models
 - Increasing diversity in the salesforce
- Tax - Transfer Pricing
 - BEPS and differences between JGAAP and IFRS
- Japan Business Environment
 - Nurturing work relationships across cultural backgrounds
- Wholesaler management
 - Dealing with current structures and getting access to data



Deloitte Point of View

Challenges in the Pharma Wholesaler Industry

Top Pressures

Price reviews: With annual price reviews, it is increasingly difficult to make a profit with margins around 5%

Rebates: Pharma companies are reluctant to provide rebates, allowances & cashbacks due to lack of clarity on ROI

Regionalization: With the community-based care model, wholesalers are struggling to identify how purchasing behaviors will change and are uncertain how to develop their future business model

Purchasing groups: Larger purchasing groups have more buying power and more complex demands

Medical specialists: HCP`s prefer interaction with MRs over MSs making it difficult for wholesalers to get rich insights

Industry Trends & Direction

- *To be seen*
- Integration of IoT to improve supply chain management and inventory tracking
- Market insights provided to pharma companies through an increasing number of data services
- Seeking alternative business models, new revenue sources and expanding the value chain
- Refining the product mix and target groups (e.g. adding supporting medical material and patient education material)
- Rethinking negotiation strategies (e.g. adding prefectural government and local health care community and home visit nursing stations and home care patients)
- Changing the role of MS to become more like an MR, especially around conducting post marketing surveillance



Your thoughts

Paths to change

What changes do you believe are necessary?

Short term

- Is there a way to get better visibility of ROI on rebates and compliance?

Long term

- Can new shared data sources be established to improve go-to-market approaches?
- Can the MS and MR roles be optimized and changed so they complement each other to a larger extent?
- Could pharmaceuticals create their own vertically integrated entities?
- Is it possible to do a fundamental restructuring of the distribution in Japan, so direct to pharmacy becomes an accepted business model?
- ...?



Next steps

Going forward

Potential options



JPWA Interviews

Interviews with JPWA on industry trends, barriers to change and possible future developments



Facilitated wholesaler roundtable

Facilitated discussion with wholesaler groups on collaboration opportunities / new business models



Wholesaler Survey

Web-based survey across both pharma and wholesalers to understand feasibility and attractiveness of new collaboration



Benchmark on margin management

Benchmark of select pharma companies on margin management strategies / pricing management



Appendices

Common issues in relationship and management of wholesalers in Japan

Financial

- Interacting with too many individual small-sized wholesalers results in poor economies of scale
- Too much money spent on rebates and allowance payments with uncertain or low payoff from rebate and allowance payments
- Credit management challenges include missed payments and significant effort following-up

Data

- Lack of visibility and data leading to difficulty in analyzing overall profitability and efficacy of rebate and allowance payments
- Difficult to get internal stakeholders to accept financial analysis as basis for changing interaction with wholesalers
- Rebate and allowance budgets are determined in aggregate in reference to past years (i.e. X% higher than past year), rather than being built from the bottom-up based on planning / goals for each wholesaler

Relationship

- Difficult to get wholesalers to do what your company wants them to do (even if they do receive rebate and allowance payments)
- Dependency on wholesalers for logistics reduces negotiation power
- Lack of long-standing historical relationship makes wholesalers less inclined to be flexible in negotiation (especially for multi-national pharma)
- Wholesalers are viewed as adversaries / obstacles rather than partners in selling your products

Operational

- Interaction with wholesaler personnel wastes too much time for your staff especially since there are so many wholesalers with which to interact
- Implementation of rebate and allowance payments does not support your strategic or tactical goals
- Lack of strong governance and compliance

Types of wholesaler payment schemes commonly observed by Deloitte

Overall Sales Fees

- Calculated as a percentage of overall manufacturer product sales handled by the wholesaler

Sales Incentive Fees

- Calculated based on attainment of a preset sales goal
- Different rates are used for each product, and higher payouts can be used to support the manufacturer's national or local goals
 - Encourage nationwide attention to the product from the wholesaler in the period shortly following a product launch
 - Help the product breakthrough at a particular local account and convert that account into a loyal user of the manufacturer's products

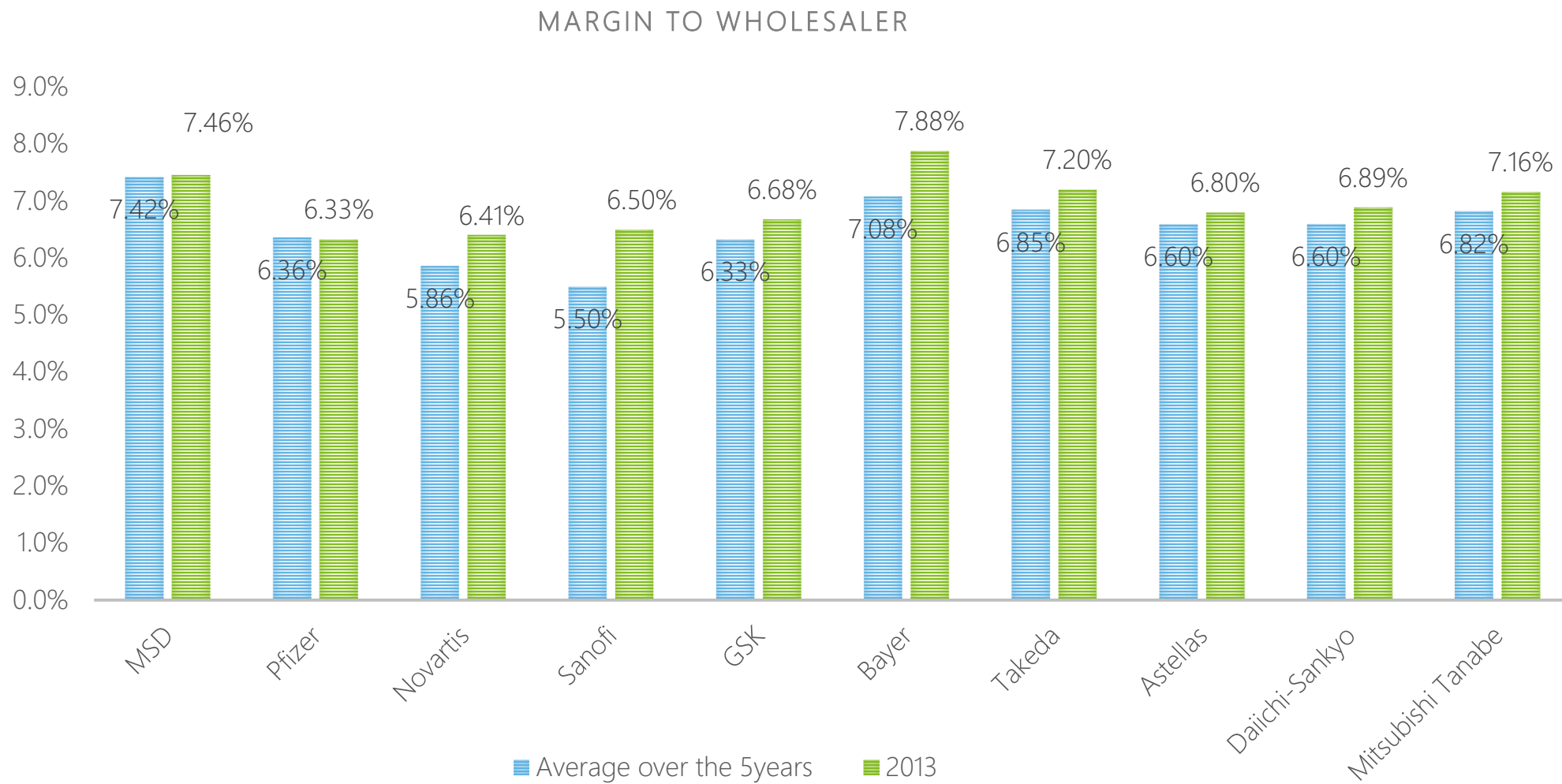
Activity Incentive Fees

- Calculated based on Wholesaler MS activity metrics (e.g. number of covered institutions, number of product details, number of accounts at which a product is "placed" (配置))
- Can be calculated based on a per-activity basis or based on attainment relative to a goal
- Can be used to supplement perceived gaps in manufacturer's own sales force coverage

Other Management by Objective Fees

- Payouts based on other metrics and behaviors of importance to the manufacturer (e.g. Prompt Pay Discounts, etc)

Gross margin rates at wholesaler level vary by pharmaceutical firm



Source: Overview of pharmaceutical wholesaler management, 2014 (JPWA)

Remarks: Gross margin rate = Sales marginal gain + Allowance

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