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Biennial drug price cuts show no sign of holding back the Japanese market

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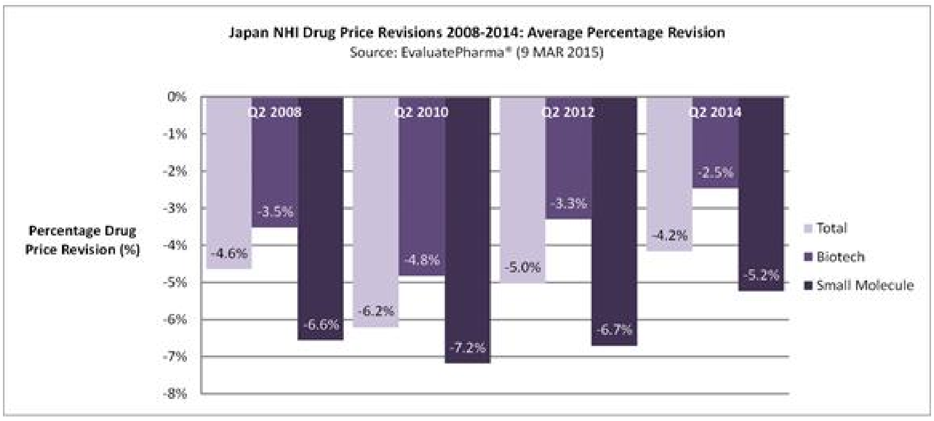
For those accustomed to pharmaceutical manufacturers flexing their huge pricing power whenever possible it is hard to picture a buoyant healthcare system functioning on biennial, government-mandated price cuts – even for the most innovative products. However, this is exactly what happens in Japan, the world's second-largest prescription drug market.

Since 2008 the government has cut the average reimbursed price of the top 10 selling drugs by 19%. And at launch, the average drug price is 40% below that in the US, and 20% cheaper than in Germany, a new report from *EvaluatePharma* finds. Despite this – perhaps because of this – the Japanese government is willing to pay up for expensive new products, and growth in prescription drug spend in the country has been outpacing the US and Europe in the past few years (see tables below).

In many ways the pricing environment in Japan works the opposite way to the US and is very much designed to keep a lid on the nation's drugs bill. The primary payer is the government, and only drugs listed on the National Health Insurance (NHI) list get reimbursed; manufacturers achieve this listing after negotiating with the Drug Pricing Organisation (DPO).

However, every two years the government implements price cuts to reduce the gap between the reimbursement price and the actual amount paid by purchasers – the hospitals and pharmacies – which will typically be benefitting from discounts being offered by the manufacturers. *EvaluatePharma* estimates the revision taken in April 2014 to have amounted to a 4.2% reduction in the average cost of a reimbursed drug, with small molecules seeing steeper cuts than biologicals.

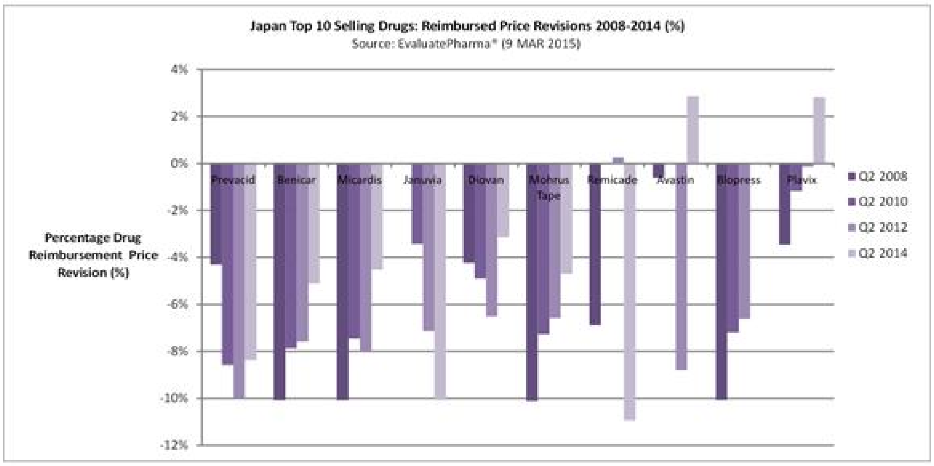


For the full table please see the report Japan Sales, Volume Pricing 2015

Because the price of a product could, theoretically, decline over its life on the market, it is vitally important for manufacturers to achieve the optimal price possible at launch. As part of the negotiation with the DPO, companies submit a peak sales forecast and estimates of the number of patients that will be treated – and both numbers are made available publicly.

However, there is little incentive for a company to overestimate a new product's potential significantly because unexpected commercial success is ultimately curbed by future cuts that are much steeper than average. So, if actual sales are double the original forecast peak, a product's price can be slashed by 25%.

This is illustrated by the price history of the top 10 selling drugs in Japan – over the last four NHI revisions, a period encompassing 2008 to 2014, the reimbursed price plunged an average 19% for this cohort. These drugs include the antacid Prevacid sold by Takeda and the blood pressure pills Benicar and Micardis, sold by Daiichi Sankyo and Astellas respectively. All of these saw their reimbursed price drop by more than a quarter over the period, a time when all hit peak annual sales of more than $1bn in Japan.



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Many of these drugs are of course reaching the end of their branded life and will be hit by various lifecycle strategies being implemented by their manufacturers. For example Remicade, J&J's anti-rheumatic antibody sold by Mitsubishi Tanabe in Japan, saw the biggest two-yearly price cut last year, of 11%. It seems likely that the company had been offering steep discounts to purchasers ahead of the launch of biosimilars, which arrived in November from Nippon Kayaku.

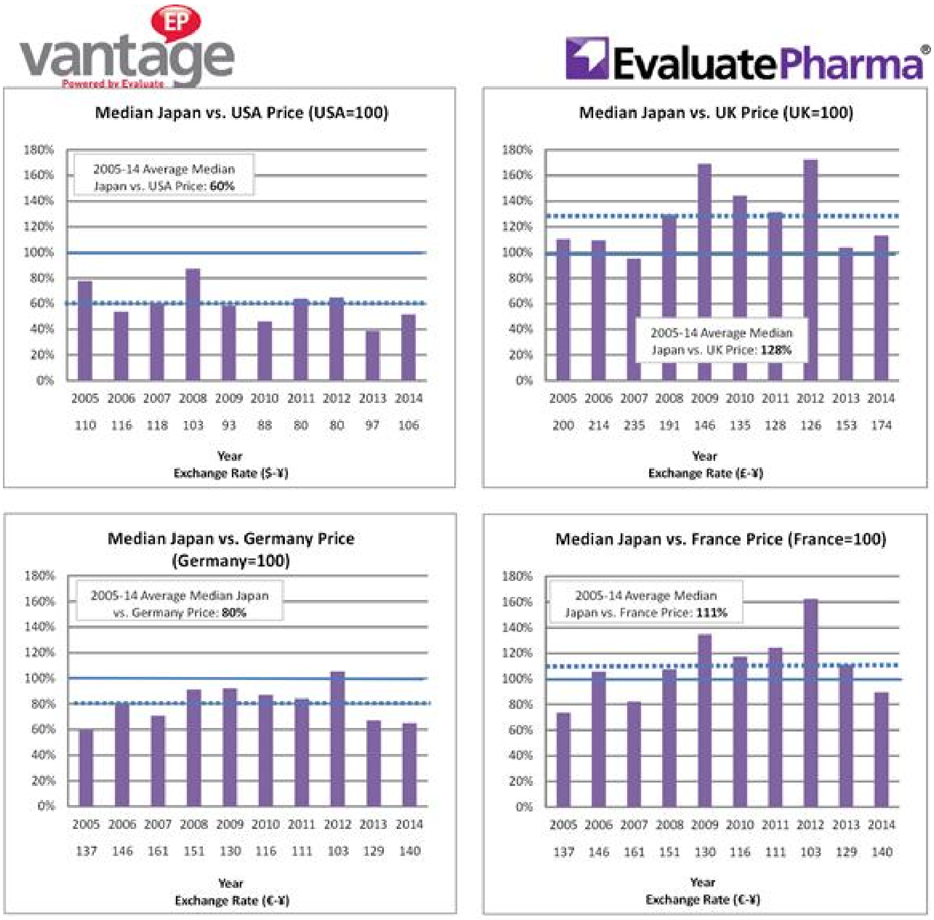
It is clear that Japan is also pretty effective at keeping a lid on prices of products at the start of their life. The US and Germany, two markets that tend to be more supportive of higher prices, have seen on average more costly launches than in Japan, whereas the opposite is true of the UK and France, the analysis shows.

It is perhaps not surprising that the differential at launch is most notable in the US – out of the top five reimbursed, comparable drugs in 2014, US prices were at least double that of the Japan price, the report finds.

Striking the middle ground on drug launch costs, and then keeping a firm grip on prices, does not appear to have harmed the prospects of the Japanese market. In 2013 the country's local currency prescription drug sales growth reached 3.2%, outstripping 0.9% growth in the US and a 1.3% shrinkage in recession-hit Europe, a previous report from *EvaluatePharma* found.

The most damage has been inflicted by the currency markets – the yen has depreciated 30% against the dollar since the government initiated aggressive monetary expansion in December 2012 – which has hit the dollar reporting of sales by big pharma.

The US drugs market is forecast for healthy growth in the coming years, largely fuelled by the hotly awaited launch of several novel products, the prices of which are no doubt bound to prompt further controversy. Many of the same launches will continue to grow Japan's drugs bill – government spending climbed 5.9% to the equivalent of $60bn in 2013 – and it will be interesting to compare the relative prices that these two regions put on these innovations.



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(The full report, Japan sales, volume pricing 2015, can be downloaded here)

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