

Operating Environment Summary

Faced with the prospect of a population with more elderly and fewer children, Japan is taking steps to hold down medical expenses. Two notable examples are reductions in official drug reimbursement prices and revisions to the national health insurance system.

Most Japanese healthcare institutions have relied heavily on two sources of revenues. One is the difference between national health insurance drug reimbursement prices and the prices at which drugs are purchased by these institutions. The other is revenues from medical services. In April 2002, however, Japan simultaneously lowered both national health insurance payments for medical services and payments for drugs for the first time. Healthcare providers responded by taking steps to increase the difference in drug prices to offset the decline in drug reimbursement prices. Pharmaceutical wholesalers are encountering rising pressure to cut their prices as a result.

This has forced pharmaceutical wholesalers to restructure operations to stop the gradual erosion in their profit margins. Actions mainly involve raising efficiency, discarding past business practices that were detrimental to profitability, and setting prices on the basis of sound economic principles.

In Japan, pharmaceutical wholesalers fulfill two essential roles. The first is the traditional role of the wholesaler: supplying a broad line of products along with all necessary information associated with pharmaceuticals. The second is the provision of a variety of

1. Medical care payments

Under Japan's national health insurance system, patients are required to pay for only part of the total cost of medical care, such as examinations, medicine and surgical procedures. The health insurance system pays the remainder of the cost directly to healthcare institutions. The amounts paid, method of payment and other details are stipulated in the Health Insurance Law. There are three categories of payments: medical care, dental care and prescription drugs. A score is calculated based on each type of service provided. The total score is then multiplied by ¥10 and the amount due, net of the portion covered by the patient, is paid by the national health insurance system.

peripheral assistance that enables our customers to reduce costs and improve the quality of their healthcare services.

In recent years, Japan has seen the emergence of hospitals and clinics that distribute almost no drugs, instead entrusting this function to dispensing pharmacies. This trend reflects the tendency of hospitals and other healthcare facilities to focus only on particular fields. At the same time, hospitals, clinics and dispensing pharmacies are organizing themselves into groups, a process that is making the structure of the healthcare and dispensing pharmacy sectors increasingly complex. Because of this, pharmaceutical wholesalers must be prepared to address a growing range of customer needs. Changes are occurring at pharmaceutical manufacturers, too. Instead of evaluating wholesalers solely on the basis of sales volume, manufacturers are now seeking wholesalers with additional skills, such as the ability to provide detailed information on pharmaceuticals.

Successful wholesaling today therefore requires much more than just upgrading the ability to supply pharmaceuticals efficiently. To fulfill their diverse and highly specific needs, healthcare providers today are turning to wholesalers with the most extensive lineup of services and information. The future belongs to wholesalers that can deliver value from many perspectives by drawing on strengths in both pharmaceuticals, and services and information.

2. Separation of dispensing and prescribing functions

This term refers to the division of responsibilities for the provision of medical care and the dispensing of prescription drugs. Physicians give prescriptions to patients, who then go to a pharmacy to receive the medication from a pharmacist. This system is gradually replacing the traditional system in Japan whereby drugs are distributed directly by hospitals, clinics and physicians.