

Health Technology Innovation in Japan: Challenges and Opportunities in Turbulent Times

An Interview with Kenichi Matsumoto

By Erin Schneider and Toshie Ando
April 23, 2012

H *Health-related private sector companies in Japan, such as medical device and diagnostics businesses, face growing domestic market challenges as the Japanese government strives to reduce healthcare costs and address growing health needs brought on by an increasingly aging population. NBR spoke with Kenichi Matsumoto, Chairman and CEO of Sakura Global Holding Co. Ltd., about the current challenges and future opportunities for health technology innovation in Japan.*



Mr. Matsumoto is Chairman and CEO of Sakura Global Holding Co. Ltd. and Sakura Seiki Co. Ltd. Previously, he was President of Sakura Seiki Co. and Executive Director of its Board. Mr. Matsumoto is also Director of the Hospital Engineering

Association of Japan, Executive Director of the Japan International Medical Technology Foundation, and Director of the Tokyo Pharmaceutical Industry Health Insurance Society.

Q. **In an effort to reduce healthcare costs, over the last five years the Japanese government has cut its reimbursement rates for medical devices and overall payments to medical institutions. What adjustments will government and the health-related private sector need to make to respond to these changes?**

Reducing healthcare costs is one of the biggest items on the Japanese government's agenda today. Government reimbursement rates for the healthcare industry, which are adjusted every two years, will be subject to change this year, and Japan's pharmaceutical affairs law will be heavily revised.¹ These changes will have major impacts on the domestic healthcare industry in Japan because they directly impact the industry's profit margin.

1 For more information regarding the Japanese system for medical device reimbursements, see Japan External Trade Organization (JETO), "The Japanese Reimbursement System," September 2011, http://www.jetro.org/index.php?option=com_content&task=view&id=505&Itemid=384. The Japanese Pharmaceutical Affairs Law regulates the manufacturing, importation, and sale of drugs and medical devices in Japan. Originally passed in 1960, the law was heavily revised in 2002 to facilitate regulatory harmonization between the Japanese and European and U.S. markets.

Therefore, with the potential for declining profits at home, it is more important than ever to focus on strengthening our exports. Many companies and organizations have been calling for the government to strengthen support for the field of life innovation and increase exports to emerging countries.² Because the yen is currently so strong, our products must be extremely desirable and well-made to be competitive. Thus, it is important that the government promote R&D in life innovation to ensure that Japan continues to produce innovative and competitive pharmaceuticals, medical devices, and medical technologies.

Additionally, because it would cost a significant amount of money to harmonize the regulatory standards of the Japanese medical device industry with those of emerging economies, I suspect that in the near future more companies will begin to

2 "Life innovation" is broadly defined as research and innovation in the fields of science, engineering, medicine, the humanities, and the social sciences. For examples of projects, see Japan Society for the Promotion of Science, "Funding Program for Next-Generation World Leading Researchers (NEXT) Program, Selected Researchers/Projects, Life Innovation," <http://www.jsps.go.jp/english/e-jisedai/life.html#se>.

conduct assembly and manufacturing operations in emerging countries, rather than attempt to enter new emerging-economy markets entirely. However, because medical devices cannot be manufactured without very specific components and materials, similar to automobiles and semiconductors, moving manufacturing operations to emerging countries will also come with some initial challenges. So, the question remains: to what extent can we compete in emerging markets with products made in economies such as South Korea or China?

To address this issue, the Japan External Trade Organization (JETRO) is pushing Japanese small- to medium-sized companies to expand internationally by providing them with support to attend BtoB³ exhibitions such as Arab Health in Dubai, the China Medical Equipment Fair, and MEDICA⁴ in Dusseldorf, Germany. Exhibiting in such trade and industry shows is a first step to expanding globally.

Q. You mentioned that regulation is obstructing entrance into emerging markets. Can you elaborate on this issue?

Regulatory barriers for medical devices and pharmaceuticals are a major challenge to entering emerging markets and becoming internationally competitive. Japan has an extremely long regulatory approval process, which inhibits industry from competing with other leading international companies. Many Japanese ventures are not strong enough to wait out the long approval process and cover the costs incurred during this time. While the government must promote life innovation policies, Japan's international competitiveness will ultimately decline if the issue of regulation is not appropriately addressed. I think that the Japanese government—including the Ministry of Health, Labor, and Welfare; the Ministry of Economy, Trade, and Industry; the Cabinet Secretariat; and the Ministry of Educational, Culture, Sports, Science, and Technology—must coordinate to resolve this issue. In order to be competitive, leaders within the healthcare industry and the government must have the ability to maintain perspective and see the entire picture from a broad viewpoint. They must have guts, determination, and courage, and finally, they must have passion.

³ BtoB exhibitions are global meetings set up by the UK-based company Business to Business that bring together businesses and buyers from around the world to foster international ventures. For more information, see the BtoB website, <http://www.business-business.co.uk/index.html>.

⁴ MEDICA is one of the world's largest annual international trade fairs for medical devices and equipment, which brings together innovators, medical practitioners, and healthcare industry representatives from over 115 countries.

Q. Shifting back to the domestic sphere, how are government and the private sector addressing healthcare challenges resulting from Japan's aging population?

Japan has indeed entered an era of aging, and healthcare for the elderly is a critical issue for our society as a whole. Home healthcare for the elderly, in which a doctor visits a patient in their home, has been growing at a rapid pace, and it is very expensive. To help address the issue of cost, the Japanese government recently established a certification program that enables nurse practitioners to diagnose and treat very basic ailments, which reduces the number of doctor visits among the elderly. Despite this development, however, home healthcare is still too expensive to be sustainable in the long term.

So how do we address the issue of cost? I believe that the use of information communication technology (ICT) for healthcare will be key in the future. For example, devices such as a cardiograph or a blood pressure monitor can be provided to patients at low cost with easy-to-use instructions, and the patient's medical information can be sent to their clinic or hospital at the press of a button. Depending on the result of the reading of the cardiograph or blood pressure monitor, a doctor would then ask a nurse or a pharmacist to assist the patient if necessary. This is not as critical in big cities like Tokyo and Osaka, where access to care is less challenging, but in many rural areas, where the population is gradually decreasing, the numbers of doctors and hospitals are also declining, posing new challenges in access to care. This issue will only continue to become more complicated, and ICT provides promising solutions.

Another key technological opportunity to reduce the cost of healthcare is the use of telemedicine, in which doctors in remote and/or less-equipped hospitals can use telecommunication and IT to attain second opinions and diagnostic results from doctors around the world. For example, Cho Ray Hospital, one of the largest hospitals in Vietnam, will soon be connected with Mita Hospital in Tokyo, and the China Rehabilitation Research Center in Beijing. Through the use of telemedicine, specialists from these three hospitals can collaborate and share their knowledge and expertise. Although the use of IT for telemedicine does require some initial investment to establish infrastructure, telemedicine serves as an affordable and sustainable solution in the long term.

Q. Looking ahead, how do you see Japan's health-related private industries, including diagnostics, manufacturing, and medical devices, evolving over the next ten years?

Japan's health-related private industries cannot speed up their competitiveness by relying on domestic policies, such as government reimbursement rates, which are shrinking, and more and more imported medical products are being used in treatments because they are less expensive. If the currency rate of the yen remains high, exporting Japanese-made medical devices will not be sufficient from a business perspective. To reduce costs and increase the competitiveness of Japanese companies, these industries must look to establish R&D and manufacturing facilities in the countries where they aim to sell their products. For example, my company, which employs about 2,000 people worldwide, has established four headquarters—in the United States, Europe, and China, and our global headquarters in Japan. Roughly 60% of our business is in the overseas market, and about 40% is in the domestic market.

In addition to Japanese companies expanding globally to improve their international competitiveness, it is equally important that Japanese governments and industry begin to work together more effectively, both to streamline regulatory systems to reduce the time and cost of creating new products and to create an environment or ecosystem that fosters innovation and growth. 