

In late 2012 Mitsui increased its stake in Arc Pharmed to 30% with an additional infusion of ₹372 crore. In March 2013 **Arch Pharmed had to go in for CDR with United Bank accusing it of being a wilful defaulter**

Dr Reddy's and Fujifilm decided to call off their JV in generics in Japan that was being discussed for the past two years

Daiichi Sankyo alleged that the erstwhile promoters — the Singh brothers — **did not disclose full facts** when it acquired Ranbaxy

THE BAD DEAL YEAR

MARCH 2013

JUNE 2013

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There are a lot of questions being asked by the Japanese about Indian promoters and their trustworthiness. Today, the question is: are norms in the Indian pharma industry really slack and can Indian promoters be trusted?"

Anurag Surana,
CEO of Kagashin, an Indo-Japanese initiative for the chemicals industry

Promoters as Friends

Dhawan says that the Japanese are only ready for small changes at a time and Lupin had to be delicate in its move and never appear as if the Indian owners were imposing anything on the Japanese management. "In the beginning they would always insist that 3% growth was all that could be done in Japan. But now slowly they have come around and if we ask for a business plan targeting 20% growth, the management team is able to draw it up," Dhawan adds.

"The rules are very different from the US. Molecules, expiry norms and even shape of tablets or colour norms are very different in Japan," he points out. "So far it has been only Lupin. If two more Indian players could get into Japan successfully, it would make a lot of difference," says Dhawan.

Khanna of India-Nippon has spent more than six months studying Japanese business at Sophia University, Tokyo, and is teaching there. He also adopted a Japanese name, Shuto Takahashi, and tried to look Japanese during his stay there. He has started another initiative for the chemicals industry of the two countries named Kagashin.

CEO of Kagashin, Anurag Surana, is currently helping a major Japanese API maker invest in India. Surana says: "There are a lot of questions being asked by Japanese about Indian promoters and their trustworthiness. It happened after Maruti's Manesar plant problem when everyone in Japan started asking us if there were a lot of labour issues in India. Today, the question is: are norms in the Indian pharma industry really slack and can Indian promoters be trusted?"

RC Bhargava, chairman of Maruti says Suzuki came to India fully prepared to deal with the labour situation in the 1980s. "The violence at Manesar was abnormal behaviour."

Surana, who had a lot of Japan experience behind him before joining Kagashin, also points out that while the Japanese would ask these questions verbally of Indians they consider friends, such questions are never put in an email. "The API manufacturer, a \$4-billion company, wants to form a JV in India with a majority stake and a local partner who will manage the local issues and run the company too. They will bring in their globally renowned technology," Surana adds.

Surana says this is how Japanese normally like to operate — with a local partner. The Ranbaxy buy, in many senses, was an aberration. Also, there were others who learned from the deal. When Abbott bought into Piramal Healthcare, they picked up only the Indian branded generics piece and the payment was staggered over four years.

Lessons have been learned in Japan too and expect future deals, at least in pharma, to surely go through Nemawashi in future. ■



Little known Japanese business practices

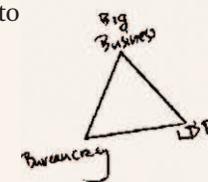
Ringi Seido is the decision-making process in Japan that involves deliberations and circulation of a document called Ringisho on which all the members of the group can affix their seal - indicating in the manner of its affixing, whether they are for or against or undecided. The manager one level above the group then looks at the document and indicates his position on it and then sends it back to the originator of the idea. The originator, depending on the decision, either initiates action or re-evaluates his idea.



Amea is how the relationship between the boss and his subordinates is defined which is often similar to the traditional Indian relationship between a father and son. The boss takes it upon himself to be responsible for the subordinate's well being and mental and career development and the subordinate accepts his boss as a guardian and someone to whom he will stay indebted. The key here is he will stay indebted and not try to pay back, but instead will be forever respectful.

Nemawashi is the process of consultation, often considered a part of Ringi Seido. In case an idea is originated by someone at level three of a company, he will need to discuss it one-on-one with everyone at his level who may have an opinion or may be affected by the decision. This process can be formal like in office settings or there might be meetings that are more informal over golf or in the office corridor. After this process is over, the discussion can move a level up. The benefit of this process is all the naysayers to the idea are either taken on board or the originator is aware of their objections and is ready to counter those positions.

It is the concept of oneness of the self and the employer and the organization. The individual in Japan is trained to sacrifice his self-interest to protect that of the company or the organization and the priority is always what benefits the organization. This sense of oneness with the organization helps in reducing office politics.



Iron triangle is another unique concept that assumes that business, government and bureaucracy have this as their duty to lead society in the direction such that it is possible to meet the national goals.

Relationship driven: Among other concepts is of course the Japanese custom of not talking business at the first meeting. Where an American would be agenda-driven and speak about the product he wants to sell and its merits, the Japanese would first want to know about the person who is trying to sell. The focus is on whether a relationship can be formed and then comes business.

Automation serves humans: There is also the concept of automation and machines that are looked upon as something brought in to help the workers and not replace them. Usually when a new machine is brought in the foreman is encouraged to take it apart and understand it and improvise its functions and then use it.

Indian market and looking for pieces that help that."

Unlike in the Ranbaxy transaction, where Daiichi bought the entire company with its various pieces supplying markets in India and abroad, straddling R&D to generics to branded OTC products and backward integration into API (chemicals that go into making drugs), Japanese companies are today likely to be more specific. The total Indian pharma market is worth almost ₹70,000 crore and yet there are few Japanese success stories in India. Otsuka and Mitsui have just taken over the injectibles business of Claris, and Eisai has invested ₹500 crore in a manufacturing unit in Visakhapatnam.

On the other hand Japan is a \$80-billion pharmaceuticals market and Indian companies barely have a presence there. Firstly, as Singh of KPMG points out, the Japanese companies are so big that Indian players cannot imagine buying out one. Secondly, a Japanese pharma play needs a full-fledged team and an incremental effort over a US market play will not work, says Vinod Dhawan of Lupin.

Dhawan heads Lupin's effort in Japan — the company bought out a Japanese pharma firm called Kyowa in 2007 around six months before the Ranbaxy deal was announced and is today the only success story of Indian pharma in that country. He says: "The first thing the director at the Japanese ministry of health asked us after the takeover was announced was how many Indians we were bringing to manage the company and how many local people would be fired. We assured him that that was not our plan at all." Dhawan points out that Lupin did not change the top management of the company and sent just one person for coordination from India.