

Interview: Martin Rohrbach - Partner & Head of Life Sciences, KPMG Switzerland



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Patient-driven drug pricing, the uncertain future of Switzerland's tax regime, and new business models for life science innovators in a changing global market are just a few of the topics touched upon by KPMG Switzerland's head of life sciences Martin Rohrbach.

On February 12th the Swiss people rejected the Tax III reform via referendum. What does this mean for the Swiss business community?

Tax reform has become necessary in Switzerland as the OECD is pushing for the harmonization of international tax systems, but the Swiss people rejected the package of proposed reforms via referendum on February 12th. Now this means that Switzerland and the business community here will have to find other ways to respond to the OECD's demand. The private sector will have to play a role here and lead the discussion on alternatives.

First and foremost, it is important that everyone involved keeps a clear head and does not overreact. I will be investing a lot of time talking to our clients about how to react and our federal government in Bern and the Cantons are to develop a plan. Certainly, the government will be able to develop a suitable permanent solution within the next few months, and in the meantime, it is important to not overreact, and to engage with the relevant stakeholders in a constructive discussion to find ways that work with the needs of the specific company. There are a minority of companies that are here primarily for tax optimization for those a quick reassessment of the

factors might be more imminent than for others. For the vast majority of companies that are located in Switzerland for the “entire package.” I’m confident that Switzerland remains one of the most competitive and attractive business environments in the world, especially for life science companies.

As the head of KPMG’s life science team in Switzerland, what would you highlight as the most significant trends in the global life science sector that innovators have yet to properly adapt to?

The pharma industry is currently going through a period of transition. I see three big trends: a power shift regarding pricing, a move from treatment towards prevention and healing, and an empowerment of the patient.

In terms of pricing, for many years, companies have focused on developing and bringing drugs to market with a high degree of power in pricing their products. This basic premise is about to change, and today pharmaceutical companies no longer have the same power on setting prices, rather it is the governments, often the payer, or even the customer, who has the greatest influence over the price.

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Secondly, in terms of the overall shift to a more holistic approach to healthcare, life science innovators can no longer just create and sell a drug to treat a symptom or illness; rather they must provide a new approach or solution to support a patient’s health in terms of either prevention or healing of a disease.

The third area is a trend towards the empowerment of the patient within the healthcare ecosystem; one of the driving factors behind which is that patients actually bring something of significant value to the industry that hasn’t previously been accessible: data. Data is quickly becoming a critical element in the industry, and whoever gets access to and begins to study data on a specific issue first can gain a significant advantage. Let me give you an example: We can today collect data on pretty much anything and specifically on how and when somebody moves and how active they are through wearables. If the data can be used effectively and access is granted to it, the benefits to prediction and prevention can be enormous. Not to speak about the benefits of patient feedback through social networks or specific forums and apps. We are really only beginning to learn about the patients and start interacting with them on a different level.

I believe that patient empowerment will continue in ways that some may not expect: Imagine a patient-driven drug pricing. Today it is largely the payer or healthcare system that assesses the value of a treatment and negotiates with the manufacturer, but in a world where the patient's input is increasingly being sought and valued, I can imagine a future where they will help to assess the value of the products used to treat them.

How well have the leading pharmaceutical innovators responded, particularly those based here in Basel?

These big trends and a variety of other factors have created enormous pressure on the life science industry to change. Some companies are adapting faster than others, and what we are seeing is a new global environment where there are different types of emerging businesses with different strategies. One model we are seeing is basically a traditional pharmaceutical sales model, where a company has a portfolio of products and either develops or acquires new products to drive their performance and growth. Another model would be a fully integrated company working with the entire value chain at a scope wider than that seen before, where they play an active role in prevention and population health management, as well as the development and provision of healthcare solutions. Finally, a third is a highly-focused niche strategy where a company can develop a core competence around a specific condition and provide a full range of solutions around that condition, and support the lifestyles of the affected patients.

For the most part, I would say that the largest global pharma companies, be they Swiss, American or otherwise, must deal with these topics and that many of them have taken significant steps to adapt. Where I see more potential for action is for the companies that are focused more on the supply chain, such as CMOs, as they already operate on lower margin business models for the most part. I see some need for realignments as they may not be particularly well-prepared for another significant reduction in margin, and eventually this whole pricing discussion between payers and pharmaceutical companies will be replicated between pharmaceutical companies and their suppliers.

We understand you are head of KPMG's Swiss biotech initiative. Could you tell us a bit about what this is and your priorities for this initiative?

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Innovation is an important topic on our strategic agenda, and while our focus as a service provider to the life science industry is clearly on the medium and big pharma companies, we also see a need to provide support to the smaller innovative companies that represent the future of the

industry. As such, we do our best to help innovative life science startups by providing advice, coaching, and helping them address basic questions by giving them access to our capabilities in terms of tax, accounting, or general consulting. It is very much part of our strategic agenda to invest time and resources in helping this fundamental layer of the life science industry to grow and flourish.

We hear from many that the Swiss are a bit risk adverse when it comes to entrepreneurship. Do you see this in the Swiss biotech community?

Having lived in North America and being familiar with other cultures, I would say that Swiss culture is very rooted in success, and that image of success doesn't embrace the concept of failure in the pursuit of success to the same extent as in the US for instance. Our mentality is very much that we will go from where we are to a successful future in an as straight of a line as possible. However, that doesn't mean that Swiss entrepreneurs will hesitate to take risks in the pursuit of success.

What I would highlight as the main differentiator between the Swiss startup environment to that in the US for instance is the funding landscape. Access to funding is critical for innovative biotech startups, and the Swiss funding landscape is very fragmented: we have lots of VCs and private equity players, the government plays a role, but it is all fairly disorganized and there is an immense level of competition for capital. In the US there are very well-established and very large funding networks in the biotech community, so while there is still a lot of competition, there are many more potential sources of capital to pursue.

As you explained, KPMG is investing in the future by supporting startups. However, if you look internally, what expertise and capabilities is KPMG investing in developing for the future?

As a business, KPMG is driven by the changing environment and we always try to be a step ahead in terms of what's next. Right now, we identify three fundamental game-changers for the future in life sciences. The first is strategy; you need to know where you are going and how you will get there. The second is digitalization; we have developed a very robust cross industry group for digitalization, where we also have very strong life science industry-specific capabilities within that team. The third is operational challenges, where companies need specific support to address commercial aspects like pricing, or technical aspects, supply chain optimization for example, or how to structure a transformation of the manufacturing network. In terms of regulation and transparency, there is an important tax aspect to all of these questions with regards to site selection, and how you structure your value streams. KPMG has developed a lot of life science-

specific experience around these topics, which we showcase a small part of, in our publicly available Site Selection for Life Sciences Companies guide.

KPMG of course has competition. What would you highlight as the company's key strengths relative to other firms?

KPMG has always been very strong in multidisciplinary thinking and putting people first. So I think these are two core elements that define the way we approach our clients and projects, which differentiate us from our competitors. We have also invested strongly in strategy and transformation, and I feel that we are also perceived to be one of the leaders in that field.

As the official auditor for Roche, and presumably having relationships with other globally relevant innovative life science companies active here in Switzerland, what would you say that Switzerland means to KPMG as a country?

Switzerland has always been a very important country to us globally, as it hosts the highest number of multinational companies per capita in the world. For KPMG's life science team, Switzerland is ranked in the top five alongside the US, UK, Germany and Japan.

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