

Interview with Bert Hanique, Leader Life Sciences Industry, Deloitte Netherlands

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Deloitte is renowned for its strong network of international expertise. Yet every market has its own particularities? Having spent 16 years with the company, in your opinion, what is it that your clients struggle with the most in the Netherlands?

What you see here in the Dutch market, is a clear division between smaller biotech and biopharma companies and bigger pharmaceutical corporations that either have a sales hub here, or an R&D centre in combination with (toll or contract) manufacturing.

We should look at life sciences on a more global spectrum. While the life sciences companies may be decentralized in their functional steering or management, they are corporately organized with a centralized set of objectives and goals.

When looking for challenges, the companies in the Dutch market, often being part of a foreign multinational, need to focus strongly on the efficacy of their processes. This can range from their relationship with clinical research organizations (CROs), to the way they want to manufacture, be it on contract or toll basis. Yet the centralized goal setting at corporate level may prove hard to align with local focus on efficacy improvement.

Not only in the Netherlands, but worldwide it seems that on the one hand, companies need to constantly step up their game with the latest technology to stay innovative? while on the other hand, such increased complexity is said to make these companies less productive and less innovative? Is there a way out of this paradox?

In fact, the question at stake is: ?Where is this paradox coming from?, and the golden answer is yet to be found. Moreover, this paradox has become even more prevalent with the crisis. Smaller companies, because of their cashflow burden, need to reduce R&D in order to survive. At the other side of the spectrum, larger companies have for years struggled to be innovative. Because of these dynamics, the industry has seen an increase in mergers & acquisitions (M&As).

Where larger companies have been looking to buy innovation into their organization, smaller players often have no choice but to opt for such funding due to financial constraints.

Is there really no other option for them?

There are two areas where these companies have a certain flexibility to reduce costs in times of crisis. At such times, they will always look for the areas that can have an immediate impact. The two

areas that qualify in that sense are head count (HR) and R&D. For the latter, management can decide from one day to the other to reduce funding. That is why there has been a focus on reducing R&D spending in the first place.

Also part of the paradox is to consider whether this situation is sustainable in the long run, where the answer is obviously no. Yet, as long as no alternatives to the cash burden are being found, there seem to be little other option.

You mentioned the crisis, and its catalyst effect on this paradox. When do you see the market recovering here?

The first signs of recovery are already there and it is now a matter of getting the confidence back in the market. Before the crisis, there was a strong focus on strategic alliances, where smaller companies partnered up with larger or a mixture of several larger companies. Within the low perspective of their own portfolio, larger players have been looking into the portfolios of the smaller ones. Galapagos is one such example of a company that is strongly engaged in strategic alliances across many of its potential product lines.

The Netherlands has been identified as an attractive destination for investment opportunities for pharmaceutical companies. What advantages does the Netherlands have to offer these companies in terms of financial and tax incentives?

We need to first take a step back and look at the business process and value chain of the pharmaceutical sector. In all the areas of, for example, R&D, manufacturing and marketing & sales, the Netherlands has a valuable legacy.

Tax-wise, big corporations tend to look for operating models where they can contract out at any level of the value chain. The Netherlands has always been very receptive to investments from abroad, which is important since tax advisors and the Revenue tend to look at the broader picture. In that perspective, it is fair to say that the effective tax rates for KERT-structures, but also contract manufacturing, contract R&D and LRD and commissionaire structures in the Netherlands are very competitive.

In addition to that, when the business grows and the financing component becomes part of the story, the Netherlands also has the legacy of offering a good tax regime. Moreover, a new development in recent years has been the Innovation Box, which creates a tax rate that is very competitive with other countries in the long run. The excellent thing about the Innovation Box is that it covers income from R&D, which is the core element of future growth.

All this, together with other factors such as the presence of top universities and the availability of qualified people, make the Netherlands an attractive investment location.

At the same time governments worldwide remain under pressure. What do you believe will be the long run implications of fiscal austerity on the life sciences sector in the Netherlands?

It is worth mentioning that the Dutch policy has been praised in the past for its supportive elements of grants and incentives. In recent years this image has changed. Recently, however the Prime Minister has once again made it very clear that innovation should be at the top of the public agenda. In this respect, I feel that the government is reaching out to the industry to have discussions at this level.

There is no money to make significant public investments in the R&D, but bringing open innovation to the table and joining up with government is the right mindset. When the mindset is on open

innovation, results and incentives may follow.

Inevitably this also needs to create success stories. We have seen Dutch companies such as Crucell, Galapagos, and Organon, however, the number of national champions from the Netherlands in pharma has remained limited. Why do you think this is the case?

Technology has been changing over the years. The blockbuster model of the past was largely based on chemicals. What scientists have concluded now is that the variety one can create from these chemicals has now come to an end. The innovation should be in the biotechnology, which is much more complex. The difference between small and big molecules creates a completely different ballgame for the industry today. Both investments and risks are much higher. At the same time, this more challenging climate offers a breeding ground for innovation. In addition to that, there have been examples of local success stories on the pharma side of the spectrum, with companies such as Centocor, now J&J.

Where does Organon fit in this story?

Organon, a company with a lot of Dutch pride, has of course been hitting the headlines recently. However, you cannot isolate the question on the plans for Organon from the fact that it had been acquired by Merck, and before that by Schering-Plough. They become part of the strategy of big pharma, one of these strategies is to engage more in contract R&D with third parties.

The Netherlands is highly respected and internationally renowned for their research infrastructure and clinical trials. Do you feel the nation has fully exploited this potential?

Whether it has been fully exploited is hard to say. But the legacy in combination with the knowledge at universities makes the Netherlands still one of the key countries to conduct research and clinical trials.

Do you feel that Deloitte can support companies to further capitalize on this potential?

Deloitte likes to maintain a market approach where it has industry knowledge, or a strong industry focus. It is crucial for us to learn from our clients what is on their agenda and why, rather than pushing on them what we can offer. Deloitte is on a challenging learning curve: learning from our customers to help them with the things that they find important is the message. This allows us to identify where we can add value, as well as the way this added value will be recognized by the customer.

For example, some companies are the experts in clinical trials, so it is not a matter of us telling them how to organize their trials. Deloitte can however support them based on the credentials it has by using our knowledge from talking to other organizations. In addition, we can even bring organizations together to talk among themselves on the agenda points they deem most important.

Based on the skills it can offer, Deloitte also has the ability to provide a variety of added value ranging for example from valuation modelling, to process effectiveness. However, rather than a push strategy, Deloitte strongly believes in an interactive client-advisor process to make this happen effectively. The emotional side â?? EQ beyond IQ â?? is a key skill to succeed in this interaction process, being able to build sustainable relationships.

Because of the access the world now has to content-related matter, tax in itself is for instance on its way to become a commodity. Because of this accessibility you cannot differentiate yourself anymore on content only. Where Deloitte wants to distinguish itself is that our Dutch life sciences group here in the Netherlands is aligned with the global Life Sciences Group at Deloitte. There is a lot of

interaction with our global colleagues and, as a consequence, a plethora of opportunities for knowledge-sharing and best practices.

You clearly work around a customer-centric attitude to add value. What are your key priorities today to keep increasing your value-adding capacity?

The core element, in my view, is building relationships with (key) executives of the companies of the sector. This helps them to understand Deloitte better, while at the same time it gives us valuable insights in the organization and agenda of the client. The underlying attitude is not to take everything as a given, but instead ensure a proper understanding of what really matters to the client.

Do you have a final message on behalf of Deloitte to the readers of Pharmaceutical Executive?

The message we would like to bring across is that by focusing on the needs of the industry itself, Deloitte aims to become a trusted multi-disciplinary business advisor. Deloitte is serving a significant number of pharmaceutical, bioscience and medical device companies on a daily basis and offers its global expertise at the client level. Deloitte has the ability to reduce the big world companies face by providing customized advice and additional guidance and support, while capitalizing on our own international connections and expertise

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