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Mike Braun, partner at Deloitte China, shares his perspectives on the recent China reforms, the strong presence of Deloitte within China as a consulting firm with a DNA in professional services, the importance of the healthcare and life sciences industry to their business here, and their commitment to delivering comprehensive solutions to their clients.

Mike, having worked with Deloitte for over 20 years, with a significant amount of time spent in China, could you briefly introduce yourself and your area of focus at Deloitte?

To set a little context, I joined Deloitte in Germany over 20 years ago. Deloitte as an organization has changed a lot as well in the past decades. Deloitte Europe at that time was just starting to focus on industry sectors. When I joined, I was asked to choose an industry to focus on. Healthcare and life sciences was – and still is – a very important sector for European countries, representing a very significant percentage of their economies, while seeing more or less continuous growth. This was very interesting for me, particularly from a service provider standpoint, since it meant that our clients were focused on growth, development and other interesting topics instead of cost-cutting or compliance.

I first came to China as an exchange student in the mid-1990s and initially planned to spend just two years here. The reason is simply because there are so many new and exciting things happening here. As advisors to the industry, we like challenging and demanding projects because that is where we can bring value. I actually established our life science team within what we call our Financial Advisory function here in China because we realized the need to build a team with expertise in this industry that cuts across all the five functions we offer at Deloitte.

We have also recently formed the Deloitte Asia-Pacific (APAC) organization as well. Globally, regionally and certainly locally speaking, the healthcare and life sciences industry is a highly strategic sector for us.

How would you characterize the healthcare reforms that have swept China over the past decade?

The China market has seen multiple waves of reforms. In the early 2000s, China represented first and foremost a huge and largely untapped market. The country was opening up, healthcare reforms were beginning (with the implementation of basic medical insurance, for instance), and purchasing power was increasing. One could say it was the heyday for foreign pharma companies in China. Significant foreign investments entered the country, and most quality healthcare products were imported.

In the past few years, we have seen a changing awareness of healthcare needs in China. The government has launched significant reforms because they are looking for smarter ways to manage healthcare spending. Money is not endless, not even in China, so Beijing has set their own healthcare agenda, which is more or less outlined in the Healthy China 2030 national strategy. Understandably, the country is looking at other healthcare models in Europe and Japan, for instance, to see how to construct their own. What is clear is that they do not want to replicate the US model where healthcare costs are the highest in the world.

Furthermore, China now knows that they are important to the global industry. The Chinese market is now so big as a proportion of the global market – and indeed, in revenues and certainly growth share – for MNCs that it is affecting stock and share prices. These MNCs are also mainly based in more mature markets where growth is slower and regulators are far more cost-conscious, so China is becoming a very important market for these companies to build another equity story.

Therefore, while we see some extraordinary growth stories in China with double-digit growth figures and so on, this growth is still dependent on having the right products, the right strategy and the right execution. In general, the market is becoming more rationalized and more sophisticated.

The market today is significantly different. How do the challenges faced by your clients differ, and how well are these new challenges understood?

It is patently obvious that the China market is full of opportunities. The secret is how you can exploit these opportunities to build a successful business in China.

We run many roadshows and conferences globally and the positive aspect I would like to highlight is that there is a much better understanding of the China market today than ten or twenty years ago. We now have international players that know China well and speak the language fluently, we have Chinese people that have studied and worked abroad, there is a significant amount of analysis and news about the country in general. I would say, in all its complexity, the China market is actually much better understood than other Asia-Pacific markets like Japan, for instance – at least by our clients. Their knowledge is absolutely first-class. On the other side, the Chinese market has also matured. When it comes to negotiating and dealing with foreign parties, the expertise is absolutely there as well. Local partners sometimes have to bring in external support but this is sometimes purely to add capacity or bring very niche expertise.

This does mean, however, that the challenges that do exist are far more sophisticated and complex than they were before. The fundamental issue is the regulatory environment, which affects the way local and foreign partners work together. Both parties ultimately need to be aligned in their strategic objectives, but after that, the operational execution is critically important.

We always advise our clients, for example, that regardless of the exact partnership structure you choose, you need to commit to a physical presence in China – or the partnership will not work. Flying in occasionally to meet local partners in five-star hotels is not effective. China is still a person-to-person market. The legal system has developed significantly in the past few years but China still remains a market where the transaction does not conclude with the signing of a contract. You cannot simply sign a contract or partnership agreement or Memorandum of Understanding (MoU) and expect business to continue smoothly afterwards. In addition, in my personal opinion, stakeholders in China, whether they are local or foreign, generally prefer to resolve conflicts or disputes outside of the courts.

Accounting and tax regulations are also very important matters. They may sound mundane but they ultimately affect the tangible returns that companies receive from their JVs or investments in China. Our clients are global companies with global supply chains and operations having to work in a country with currency controls. Today, CEOs and general managers have to manage their operations in China knowing that their results usually affect the global businesses in significant and visible ways. No matter how well the businesses in China seems to be growing, at the end of the day, they need to present consolidated results to their shareholders and if China is not contributing to earnings per share (EPS) – for whatever reason – that is a problem.

How does Deloitte help your clients respond to these challenges?

These challenges I mentioned sound nitty-gritty but they are the backbone of what forms a successful business. Deloitte is sometimes still seen as bean counters – and certainly, it is sometimes important to know how many beans you have – but today we are really a consulting firm that benefits from our DNA in statutorily regulated professional services. We can crunch the numbers but we can also understand the commercial stories behind those numbers. This is critical to help our clients understand how and why they have arrived at those numbers, and how they can improve them. We help our clients connect all the dots and see the full picture.

Partnering is a major service we provide. Clients have access to our network as well as our expertise across all our five business functions. We stress the importance of our clients having a clear vision and strategy of what they would like to achieve, and our role is then to support the execution so that our clients see tangible commercial successes. This is very important. It is not enough to draft a legally sound contract, you have to understand the commercial implications. The content of the contract and the vision for the partnership is first and foremost a commercial and industrial discussion, not a legal one. We can bring in our industry expertise to discuss with the lawyers who then draft the right kind of contract.

Another key topic is leadership and talent, which has a very significant impact on financial results. The industry generally sees significant leadership rotation and in China, this issue is even more extreme. We advise our clients that you need to have people on the ground that know the market well. If you rotate key executives or leaders every couple of years, you are losing that market and institutional knowledge all the time. Leadership retention and successful programs are very important to the financial results. This is why we have launched, for instance, ‘Transition Labs’ to help on-board top executives at our client companies. New CEOs, CFOs, Heads of HR, etc. can attend to learn more about the corporate culture and practices of their new employers, who might have been our clients for a decade or two. In every organization, there are invisible norms and conventions that new entrants should know in order to be successful, so we can share our knowledge with them. This helps both our clients and the new entrants to adapt with as little friction and inefficiency as possible.

Compliance is a big topic. Data flows in China are huge so when it comes to auditing even simple things like travel expenses and so on, the traditional methods do not always work. We have established forensic technology (FT) hubs that are compliant with international and Chinese regulations to run our analysis on a very large scale in China. We also have dedicated tax and audit teams used to working with healthcare and life sciences clients. This is especially important given the pace of regulatory change in this sector in China. They need to be familiar with regulations like the two-invoice system and the 4+7 policy.

Another big topic is post-merger integration (PMI). While the China market has comparatively smaller deals – for various reasons – these deals are often more complex.

As a firm, we really focus on looking at the big picture and delivering comprehensive solutions to help our clients build successful operations on the ground. We can leverage on our strong network and resources globally.

Looking forward, as the importance of the Chinese healthcare industry will only continue to grow, how do you think it will impact the global industry – as well as Deloitte?

Looking at Deloitte first, the relevance of China is clear. The importance of China for our clients is also increasing so we have to respond to that. We recently published our Global Healthcare and Life Sciences Report 2019 and we have a section dedicated to China. At the Deloitte APAC level, China, Australia and Japan are our three priority markets. We have also already established our Chinese Services Group, which focuses on serving the needs of Chinese pharma companies going abroad. We have a mix of talents from global and from China on our leadership teams.

Looking at the overall healthcare industry, I think we will see very interesting developments. China is looking to build its own healthcare model to address its own unique needs. The Chinese culture is also one of studying and learning, so we can expect to see new and interesting initiatives at the micro level. On the healthcare delivery side, emerging markets, particularly those with large populations like India, might find interesting solutions or lessons from China to adopt.

On the other hand, innovation and R&D require legal clarity and reliability, so the biggest challenge for China there remains the regulatory aspect. That said, where China is doing quite well is in using state funding to incentivize the right kind of R&D – the kind that meets the large-scale needs of their population, particularly those without the necessary purchasing power – which is very important because industry-led R&D today is very concentrated around expensive areas like oncology and rare diseases.

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