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BREAKING IN AND GROW

Sheldon Dorenfest shares insights on the future of healthcare in China

BY GARY YAU CHAN - APRIL 6, 2012 - POST A COMMENT



Sheldon I. Dorenfest, C.P.A., M.B.A., President of the Dorenfest Group, is one of the world's foremost experts in health care systems improvement. Mr. Dorenfest has consulted with the governments of the USA, France, England, Australia, Canada and China on health care issues. As President and CEO of Sheldon I. Dorenfest & Associates, Ltd. from 1976 to 2004, he personally directed the research involved in compiling THE DORENFEST INTEGRATED HEALTHCARE DELIVERY SYSTEM+ (IHDS+) DATABASE™ and its predecessor THE DORENFEST 3000+ DATABASE™ until its sale to HIMSS Analytics in 2004. He recently created, in conjunction with the HIMSS Foundation, The Dorenfest Institute for Health Information Technology Research and Education to provide free data to universities, students, and government agencies around the world. Mr. Dorenfest has personally consulted with over 300 hospitals on a worldwide basis to help them strategize, select and implement improved information systems. He has worked with over 200 HIT suppliers to help them improve their understanding of the HIT market, shape new product strategies and better serve their customers.

The Dorenfest Group is a healthcare investment and consulting firm offering a variety of improvement services to help support a more positive world future. Providing a variety of consulting services throughout the world, The Dorenfest Group focuses these services on improving healthcare while reducing costs by helping its clients to improve work processes, management systems, and quality of medical care. In 2006 The Dorenfest Group formed The Dorenfest China Healthcare Group which offers a variety of investment and consulting services to the healthcare industry in China. Based in Shanghai, The Dorenfest China Healthcare Group invests its skill, technology, and capital in well defined projects to help China to improve its healthcare system.

Background:

Gary: Sheldon, so how did you get involved with Healthcare?

Sheldon: When in college, I majored in accounting and became a CPA. I worked in a firm called KPMG and discovered that I really didn't like what I majored in. I began looking for a job and was offered a position at Abbott Laboratories.

I took my first step in the healthcare industry over 40 years ago. After a short time, I formed my first company in 1969, called Computicare, a software company in the US healthcare industry at the time when hospitals were still all manual. It was for the first generation of IT software for health. I operated that company for about a decade. Made it successful and sold the company, and now is part of a company called QuadraMed.

Then I formed an operations improvement company, which helped hospitals plan and execute improvement programs in their work processes, management systems, and services information. We worked with over 300 hospitals, most in the US and some in other countries.

I also established a business that consulted with the technology suppliers to help them understand the healthcare industry at a deeper level, and determine business opportunities that might suit their products and services. We work with them to create new products, buy companies and sell companies, as well as answering a variety of strategic questions.

Another business was an information source which **profiles the IT efforts of every hospital in the United States, and this information** was updated every year. This company was purchased by [HIMSS \(Healthcare Information and Management Systems Society\)](#).

My entrance to healthcare was random. When I got in it, I was drawn to the industry where I believed I can be useful and build businesses at the same time.

Gary: What you decided to do as your career in life, most of the time it is not what you studied in the university. Usually it just happens, when you meet someone through networking or just being drawn in to a particular field of interest and get really passionate about. It seems like you began as an entrepreneur and healthcare became your entry point.

Sheldon: Yes. Your first career decision might not necessarily be the career decision you are going to pursue for the rest of your life, as you said. Some people should be more willing to experiment. In my life, I learned the most from the mistakes I made and I have made many. But, because I was resilient and able to fix the mistakes I made and use them to my advantage, these mistakes helped me to build my skills. Young professionals or university students should not hesitate to make mistakes because as long as they pay attention to what they do and learn from what they do wrong, then they can create a rich and fulfilling life.

Gary: What did you notice when you first arrived in China? How did that influence your decision to do business in China?

My first trip to China was in 1992 as a student of wellness to experience Chinese traditional medicine. I went there for a 4-week trip to see how acupuncture, and qigong was going to be a fit in my wellness program. At that time, China was very poor.

During my return in 2004, I noticed a remarkable transformation. It was 50 years of progress within a decade. That motivated me to believe that China would be poised as an efficient economic power in the world. I wanted to see if I could invest in China and find business opportunities while building connections in a place to what I saw was the future.

Gary: How did you get started and what are the gaps that you saw you could capitalize and make it an opportunity?

Sheldon: In early 2005, I networked throughout the US and set up a trip to China to conduct business analysis. At that stage, I was thinking I would be buying hospitals as my business strategy and so I visited 17 cities and more than 100 hospitals. I evaluated many businesses deals and concluded that although I was a seasoned entrepreneur in the West, I just didn't know enough about China to move forward with this. I did not want to invest too quickly, and if I did, I would be pouring money down the drain. I also noticed that the businesses deals I was looking at were all bad. The Chinese would have gotten to the better deals before I ever could.

For me to develop a profitable business in China, I believed I would have to start from the beginning to become an equal at the bargaining table with the Chinese.

I saw a common problem in all the hospital I visited in China: the more IT they used, the more work they added to their work processes, and the users became unhappy – they were getting the opposite results of why they were using IT in the first place.

The new IT system added work because the hospital purchased the system without enough planning, understanding, and analysis of the changes that the hospital was getting ready to make. So it ended up not fitting their processes and resulted in duplicate work.

Ideal model and system:

Gary: You spoke about the “model hospital” in China as:

1. **a. Provides improved quality of care to its patients.**
2. **b. Operates at a highly efficient level through effective use of systems and better work processes.**
3. **c. Offers its services at an affordable cost.**
4. **d. Creates a highly satisfied patient population with the patients observing a noticeable improvement in the services and treatments provided by the hospital.**

How far away is China from this “model hospital”?

Sheldon: Hospitals in China operate a lot today like they were 10 years ago. While they have more space now, the operations are relatively the same. In 2005, I was assessing to purchase a hospital and revise the operations within while still staying consistent with the Chinese service theme to provide the best patient care. However, I concluded the only way to do so during 2005 and on, was to work with a public hospital. There were not enough people that wanted to do that. Also during that stage, we believed we were not skilled enough in China to move forward with this plan anyway.

So with six years of consulting experience in work process improvement in China, we are gaining the necessary experience and skills to implement the model hospital strategy sometime in the near future.

Dominant forces in the Chinese market, and how they are doing:

Gary: What are the big players or dominant forces in the Chinese healthcare market? Are they government, medical facility provider, or pharmaceutical companies, or else?

Sheldon: The healthcare industry is made up of mostly public hospitals. If you are talking about hospital bed-counts, the private sector makes up only 5% of total hospital beds in China. Private hospitals emerged when real estate entrepreneurs were given free land for the real estate development with the proviso that they would use some of the free land to build a hospital so that the people who move in to their new development would have access to healthcare.

People with no healthcare experience, but rather real estate experience were operating most of these private hospitals.

Most people in China get their healthcare from the public system, which has many owners:

- The Ministry of Health owns about 50 of the best hospitals in China; one or two in each city with examples being Beijing's Xiehe hospital and Huaxi hospital in Chengdu

- Provincial, city, and district health bureaus each own some hospitals in a large city. For example, in the city of Zhengzhou in Henan, China, the provincial health bureau owns some hospitals, the city health bureau in Zhengzhou owns some hospitals, and the various district health bureaus within Zhengzhou own some hospitals.

- In addition, the Ministry of the Military and other ministries such as Aviation, Power, Oil, etc. would also own some hospitals in the city. These hospitals were originally set up to take care of the employees of each of these ministries who are located in the city, but over time, they became open to the public.

Even in one city, the public system would have 15 – 30 different owners, a very fragmented system, a little like the US, which has many different owners and healthcare operators.

- The government agencies set up the policies for all of these hospitals.

- Another big force is the pharmaceutical industry, made up of Western and Chinese pharmaceutical companies, because the Chinese healthcare system is over 50% funded through drug purchases.

- There are also device and equipment companies, as well as Western companies such as GE and Siemens.

- And there are many Chinese companies that operate within all these markets.

Gary: It looks like these investors do not necessarily have the intent to fix the problems such as healthcare access, utilization, cost, waste, etc., or want to provide better patient care.

Sheldon: That was how it was in 2005, but things have changed since then. Later in 2005, the National Development and Reform Commission (NDRC) pronounced the previous version of healthcare reforms as a failure and cited various examples of why it was not working. This led to a four-year period of discussion before the next healthcare reform became a reality in 2009. This was unusual, given China's typical speed for new developments, as the various ministries involved in the approval of healthcare reform all viewed the problem very differently.

In 2009, the comprehensive reform program was meant to change a lot of things. As a positive example, one of the cornerstones of the healthcare reform was to provide healthcare access to the poor. .Because China is one of the highest patient pay out of their pocket healthcare systems in the world, the poor people with limited resources could not afford healthcare. With the passage of healthcare reform, now 90% of the population has basic coverage for healthcare. To support this additional healthcare, there will be 1,000 new hospitals built in China with every county in China having at least one hospital. Due to the lack of medical practitioners in rural areas, the rural practitioners will be supported with telemedicine activities where the more complex radiological images can be sent to more experienced radiologists in urban areas.

Since 2009, China has invested a healthcare stimulus of almost one trillion RMB on healthcare reform. Within the healthcare reform investments, the investments to construct facilities and buy equipment will work very well and benefit the country, but some of the softer changes in healthcare reform, such as electronic medical records and data sharing among all of the hospitals may not work as well, because the programs being undertaken lack concise definitions and are not being planned as well as they should be.

From a relatively non-changing healthcare system, which was operated that way for many years, there are now too many changes going on at once with too much momentum, and it will be hard for China to digest all of these changes at once. The Chinese leaders will have to see some results themselves to know what has worked and what has not worked, and then they will make some adjustments to make more work well.

Challenges and Opportunities:

Gary: There seems to be still a lot of problematic gaps in between. Are foreign entrepreneurs coming in to solve some of these issues? And is the government helping to support these entrepreneurs?

Sheldon: Foreign entrepreneurs had operated healthcare in China for many years through medical devices and pharmaceuticals. What they have not been doing as much of is in healthcare services like what my firm targets.

For example, in the original implementation of IT systems in Chinese hospitals, hospital leaders spent a lot of money on hardware, some money on software, and believed that any brainpower that they needed to make the change would come from the hardware and software companies.

Because the investments in IT produced poor results, Chinese hospital leaders are seeking out services such as ours to help them get better results.

In the area of hospital ownership, it used to be that a foreigner could only own 70% of a hospital. They have to invest with a local partner, which partnerships often caused turmoil and failure. In the past 18 months, there was a big shift that allowed foreigners to own 100% of the hospitals. This was very encouraging for foreigners to seek out new hospital opportunities.

A big opportunity for foreign investors may be in providing a higher level of service for wealthier people, but this is still very experimental at this point, and the foreign investors are struggling to define what the right opportunities are for them.

Gary: Can you talk about the progress and development you had made with your first client, the Shenzhen Health Bureau? And how they impact change within their local community and drawing new policies?

In early 2006, I met the chief information officer of the Shenzhen Health Bureau at the HIMSS meeting in the US. He was there to determine how Global Solutions could help Shenzhen to implement their vision for a regional health network.

Shenzhen was a pilot site for the national policy back then to create regional health networks and digital hospitals in every city.

We were invited to visit Shenzhen in April 2006 to meet with the chief information officer, who spent six to eight hours describing his situation, where they stood, and where the problems were. We suggested a study to evaluate how Global Solutions could fit the Shenzhen vision and would help Shenzhen to make progress.

The work we did was a great success and Shenzhen really appreciated it. It was a comprehensive plan; the problem for Shenzhen initially was getting city leader support to implement the plan. In the next two years, the plan more or less sat on the shelf, but at the end of 2008, the leadership of the city decided to take a more aggressive stance, and the health bureau began to implement our plan in 2009. They brought us back to explain the plan, and we presented details of the approach. In 2010 through 2012, they have been implementing this plan with success.

Gary: From your many years of experience in the healthcare industry in the US, dealing with hospitals here, did you see history repeating itself over in China?

Sheldon: In China, every hospital had similar issues with IT in the early stage as they do in other countries as well, similar to the US hospital structure in the late 1970s and the early 1980s. This motivated me to start the hospital improvement company I mentioned earlier.

I am old enough to remember the issues back then and how they got solved. And through that, I gained the special capability to address future problems very well. It was 30 years ago, when the US wanted to understand more about IT purchasing and IT implementation. Now it is China's turn.

Today, China is the most efficient investor in healthcare in the world. They spend very little per person, about \$100 to \$200 per person. Each hospital has about 1.25 to 2 FTEs (full time equivalent / employee) per bed. On the other hand, in the US we spend about \$7,500 per person, and our typical hospital has somewhere between six to ten FTEs per bed. The US is now considered the most inefficient investor in healthcare in the world.

It was not always so with the US. When I entered the industry in the 1970s, the US was much more efficient in its spending when its spending per capita was the same order of magnitude as European countries, Australia, and Canada. Over the ensuing several decades, the US had much money to spend and spent it unwisely on healthcare improvement, and have produced their current status as the most inefficient investor in the world.

To correct the US healthcare system now is a very complicated issue. Throwing money at it will not solve the problem, because of their history of being an inefficient investor. They need to simplify, untangle, and get rid of waste and poorly working policies, which they probably will not do in the current setting.

If China invests its money with the same efficiency as past investment in the healthcare industry, it has the potential to leapfrog over the US healthcare industry in terms of ROI for quality healthcare.

Gary: Why do you say China's money is used efficiently?

Sheldon: I say this because China has gotten a sizeable return from its healthcare investment. While there is no healthcare system in the world that works well today, the problems causing each of the major healthcare systems to not work well are unique and vary by country. In the past, China's problem was not having enough money to invest. As an example of underinvesting in healthcare, patients needed to wait a long time for each step in their visit to an outpatient setting in a Chinese hospital.

The Chinese physicians on the other hand were very efficient. I observed many physicians in various settings and the number of patients they see per day was incredible. They do really good work. This is where I see the efficiency.

While there are still a large number of problems in China healthcare, for what they spend, China is getting a very good return from what it is spending on healthcare. Hopefully, the healthcare reform will continue this result and allow China to make substantial improvement from the new investment.

Gary: Are there ways US entrepreneurs and businesses can enter China and tackle some of these issues?

Sheldon: In the healthcare industry, the Western industries have advantages in pharmaceutical and medical equipment due to their brand name. However there are also Chinese alternatives for half or third of the price. So the Western companies are losing some of their businesses there.

Now we are transitioning into a new market, Healthcare Services. There are opportunities for foreigners to provide service to the wealthy, or tackle issues such as senior care services, and provide answers to rehabilitation treatments. These are all sectors that are not very well developed or practiced in China and where foreigners could provide substantial new skill.

There are also areas of medicine where Western medical practices are more sophisticated and advanced than present Chinese medical practices. For example, this was true years ago in cosmetic surgery and a number of foreigners entered that market successfully. Now it is true in other areas such as eye surgery, where foreigners may now have a business opportunity. Being able to find where these gaps are, foreigners could find a number of business opportunities in China healthcare.

Gary: What is your outlook for your firm in the next 5 years?

In the first few years of our business in China, if we had one or two new clients a year, we were very happy. We persisted and educated and our education was sought out by hospitals and universities. As a result, attendees at our educational programs became more aware of their problems and how our services could solve them, and they sought out our consultation and solution efforts.

Right now, we are working with about 25 hospitals, a few health bureaus, as well as some top Western companies that we have helped, such as Microsoft, Philips, and IMS. We are also working with some Chinese software companies, as well as a variety of foreign investors in healthcare services.

In the future, we will be focusing on the public hospital market, which is still the largest and needs our services the most, and they will be purchasing more of the things that we are selling. While it is still a large challenge, it is an even bigger opportunity, and we are in a strong position to take off within this new market. There is a big business in front of us.