Asia Healthcare Blog

EXPLORING THE INTERSECTION OF BUSINESS, POLICY AND CULTURE, IN THE ASIAN HEALTH CARE SPACE

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A Conversation with Sheldon Dorenfest

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Late last year, Wharton published an article about the private hospital market in China, good timing considering the country announced in December's update to the FDI catalog that private hospitals were now in the "encouraged" category. Consequently, it is widely expected that entrepreneurs and existing American and European hospital systems will begin to more aggressively pursue plans for expanding into China through hospitals. One of the experts Wharton interviewed was Sheldon Dorenfest, a long time entrepreneur with a history of success navigating both the North American and global hospital systems. We reached out to Mr. Dorenfest to discuss his experiences in China specifically, but also to get his thoughts on whether the market in China is in fact ready for private investment. Amid the excitement over the market opportunity, it is more important than ever to touch base with businessmen like Mr. Dorenfest who can speak to the nuance of exporting western healthcare models into an emerging economy like China.

Ben Shobert: Can you begin by sharing your experience and background as a healthcare entrepreneur?

Sheldon Dorenfest: I am a long-term entrepreneur who has owned many businesses in the US healthcare industry. The first was in 1969 – it was a hospital computer software company called Compucare when hospitals in the US were completely manual. I sold this company 10 years later but it still operates as a division of QuadraMed. Then when I sold Compucare I formed another company that ended up with multiple divisions, one of which had a focus on hospital operations improvement. We helped hospitals plan and implement improvement programs focusing on work processes, management systems, and services to patients. Usually they included IT technology and change management components, as well as defining the improvements themselves. We did this for over 300 hospitals around the world.

Another business was a consultancy to technology vendors who were either in the healthcare industry and wanted to be bigger and better, or were entering the market and wanted to understand it better. That particular business worked with hundreds of suppliers (IBM, Microsoft, etc.). Another business was an information business that profiled the IT efforts of every hospital in the US and was updated every year. That particular business was the last one I sold and is now known as HIMSS Analytics. When I sold that last business in 2004, I had already begun to sour on the US healthcare industry and the US economy because, while it was still easy to make money, it was not facilitating the types of businesses that I like to operate that do something useful for a customer and make money as a byproduct. When I sold that last business, I decided I wanted to take my skills internationally and form healthcare businesses overseas.

Ben Shobert: What initially took you to China?

Sheldon Dorenfest: My first visit to China was in 1992 when I went to China to study Chinese traditional medicine to see how it would fit my wellness program. I went back in 2004 and saw with my own eyes the amazing progress they had made in the decade since I had last visited China. I told myself I needed to look really closely at China and also added India to the equation. Initially I went over with the idea I would invest and would buy a hospital. I visited 17 cities, 100+ hospitals, looked at many business deals and did a similar and more abbreviated study in India.

Ben Shobert: Why did you ultimately pick China over India?

Sheldon Dorenfest: I picked China over India because the Chinese economy was stronger than the Indian economy. China's was based on manufacturing and India's was based on the English language (they could provide low cost services like call centers). In a contracting world, I felt manufacturing was a better foundation than service. The second reason was that the infrastructure in China was state of the art and India's infrastructure was falling apart. India just had a long way to go to modernize its infrastructure to match its economic growth. A third reason was that the Chinese healthcare system did not have good healthcare for its middle and upper class whereas India had pretty good healthcare for the middle class (in fact, they were getting medical tourists from other countries). Another reason was that I was an entrepreneur, so I was different than a VC or Private Equity firm, in that I wasn't going to go into the market with hundreds of millions of dollars. India was too easy – Westerners could understand the Indian legal structure, could speak the language of the Indian business community, which was English, and could communicate more easily with the leaders of the Indian business community – I said to myself that Westerners had great difficulty bringing their skills to China and that if I could figure out the puzzle for foreign success in China, I would be better off. The last reason was the food in China was great and the food in India was not so great! So, the quality of life was going to be better in China.

After I picked China and made the decision that if I bought hospitals in China with what I knew about doing business in China, that I would be making bad investments and so to speak be "pouring money down the drain." Even though I was a very seasoned entrepreneur in the West, I was in preschool in doing business in China and had to learn more to be successful. Therefore, I felt like I needed to back off of that investment idea and needed to create a two-phased strategy. The first phase would be to find something I could build upon to learn how to do business in China that would not be very expensive if it didn't work out. Every hospital I visited during my initial investigation of China had the same problem: the more IT they added, the more work they added to their work processes, and the unhappier their clinicians were. I have seen this in the early stages of every other country's HIT development, and it was a problem that one of my companies had solved in many countries. The problem for a new consulting, education, and training business in this area was that the Chinese, especially in the healthcare world, did not know what the word "consulting" meant.

Ben Shobert: I feel your pain. For several years I ran a consulting business that specialized in helping Chinese businesses modify their strategies for selling into their export markets. One of the painful lessons we learned was how difficult it is to sell professional services to the Chinese.

Sheldon Dorenfest: They wanted to buy hardware and software and get the brainpower for free. This was in fact the essence of their problem, so I had to ask how to build a business given this setting. In 2006 I formed a WFOE and we got our first client, the Shenzhen Health Bureau. What we basically did to sell our services was to form a network of educational alliances. One of the best of these was with CEIBS. They had a hospital EMBA program and every year had a process improvement weekend, but they didn't have enough faculty experience to fulfill all aspects of the course content. They asked us to participate in this program to fill the gaps in their experience. The message of our educational presentations resonated with some of the class members, and some of them ended up buying our services. Now, we still use education as a cornerstone to our sales efforts and work with many universities and health bureaus to lay a proper foundation of understanding within China about how to solve their IT and work process improvement problems and leapfrog other countries in their healthcare industry development.

Ben Shobert: Since these efforts, how has the Chinese healthcare system changed, specifically with respect to the private hospital opportunity everyone is currently so excited about?

Sheldon Dorenfest: What happened in the country is they pronounced the healthcare system a failure in 2005 while I was doing my study. They indicated they were going to reform it and 4 years later they came to enough of an agreement to announce the healthcare reform. They then put a huge amount of money into the reform program. This has picked up speed in 2010 and 2011 and has opened up many opportunities. The initial healthcare reform offered some subsidies to the poor to help them pay for their healthcare – that was certainly the best part – and it is working well. In order to serve the many poor people that will now be getting more healthcare, the Chinese government concluded that it had to build over 1,000 new hospitals. Healthcare reform had many other aspects to it, which created business opportunities. Our area of specialty information technology use was involved with every one of the new programs and offered more opportunities for us.

Insurance reform is a great opportunity, even though it is not developed yet, because those leaders who can see what is and is not going on can work to position themselves to build bigger businesses once the insurance model takes hold in China in a more appropriate way.

The Chinese government has made a substantial amount of money available for many different things that they would like to accomplish, but it is still not completely clear where the big opportunities for foreigners really are. In fact, if a foreigner were to begin to develop a successful model in a particular area of healthcare, the Chinese might respond with similar or better models as well as ways to diffuse the foreigners' future efforts. The biggest unfulfilled need in Chinese healthcare is in more appropriate setting and care for the upper middle class and wealthy who now go through the same healthcare system that the poor do. China is now contracting VIP care in the public hospitals, so that creates an even more significant opportunity for a better kind of hospital to serve the wealthier people. This opportunity area is well-suited to foreign investors, but how to take advantage of the opportunity is still a question mark.

Ben Shobert: Can you expand on what you mean by "how the Chinese would respond" to a western operator building a successful business model? Do you mean the Chinese government could nationalize this or somehow compete with the western model?

Sheldon Dorenfest: Both are certainly possibilities. Let's say there was a hole in the way healthcare was offered in China and the hole began to be filled by a foreigner. If the foreigner filled it well, history says that the Chinese may respond to that by filling it in a similar way, and because they are Chinese they may be able to outcompete the foreigner. At the current moment they are opening opportunities for foreigners to fill the gaps – the high-speed train started out with foreigners selling trains to China, but they had to sell technology to China. The foreigners were willing to do this in order to gain the immediate, large revenue that sales of their trains would accomplish for their companies. Then lo and behold, now the Chinese produce a better high-speed train. The same type of thing could happen in a variety of different ways in healthcare. The government could say this is a big niche and we want to serve it ourselves. They could do this by making it restricted where it was once open, or they could put a lot of money into something similar to what the western operators perfected.

Ben Shobert: So, given these concerns, how do you view the announcement that "Medical Treatment Establishments" are off the list of industries "restricted" to foreign investment?

Sheldon Dorenfest: What makes me feel relatively safe in my business is that if I offer a new skill that is 100% new, of that new skill at the present stage of their evolution in the healthcare industry, they can only effectively use 15% of that, so 85% of that is unused. So that gives me some advantage – by the time they learn how to use that 15% I am now selling more of the un-used 85%, so if we continue to do good work we can continue to grow because of that phenomenon. That is only Phase 1 of my plans for China.

For my Phase 2, I am probably different from other investors, so I would want to pick out the right opportunity for me. I am not waiting for ten more green lights. I want to find the right situation where I have some competitive advantage. Many foreigners often act with insufficient information and they make big mistakes, so their will be a lot of investors acting with a green light from the government, but without good information.

There were many foreign hospital projects in China over the last ten years, but most did not work. Some did work like United Family in Beijing that deals with an expat population providing care covered by Western insurers. They could provide high priced care and that particular approach worked in what is a very tiny market. How well will a foreigner compete in the China healthcare system is still a question mark. For me, I am not ready to make the investments but I think many foreigners are closer to being ready and with the FDI green light it is easier to move. Clearly, the healthcare system doesn't serve the wealthy as well as it should, so there is an opportunity in that area. Taking advantage of that opportunity raises the question, "What will motivate the wealthy Chinese to come to this foreign hospital when most of the famous doctors in China still work in the public hospital system?" How that will play itself out remains to be seen.

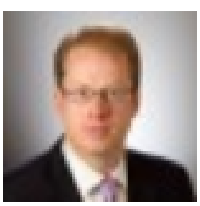
Ben Shobert: What are the major milestones for a private operator to establish a Chinese hospital?

Sheldon Dorenfest: Assuming the foreign investor wants to own the hospital 100%, the first step is to create a wholly-owned foreign enterprise (WOFE). Just to register this WOFE, the investor must follow a very complex registration process that takes the registration through many, many departments and is probably nearly impossible for a Westerner to do on its own. Most hire a registration firm to work with to accomplish the WOFE registration. On the regulatory side, one needs to make sure that what the foreigner's objectives are can be accomplished within the legal framework and that the land for the hospital can be obtained from the government. How this works varies from city to city. I think that the best opportunities in China healthcare services lie in the many specialty care areas where there is a skill missing in China. For example, cosmetic surgery is offered by many foreigners who use techniques that were not available in China before the foreigners came.

Ben Shobert: What do you think the best strategies for entering the Chinese market are?

Sheldon Dorenfest: Many specialty care areas where there is something missing like cosmetic surgery. There are many other areas where foreigners possess a particular skill that China needs and does not know how to develop itself. Senior care is an emerging need as the population grows older, but how to fulfill this need is quite gray at the current moment. Yes, the Chinese population is aging, but in other countries, aging people may use senior care models that are not appropriate to China. So providers seeking to build businesses in this area need to carefully study the cultural dimensions that might influence how this opportunity takes shape, and then create a business model that is appropriate for China.

ABOUT THE AUTHOR



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Ben is the Founder and Managing Director of Rubicon Strategy Group, a consulting firm specializing in helping American and European companies enter emerging markets. He is a member of the National Committee on US-China Relations and holds an advisory board seat at Indiana University's Research Center on Chinese Politics and Business. He is a columnist for the Asia Times on US-China trade and economic policy matters, with a particular focus on how relations between the two countries are being impacted post the 2008 financial crisis. As a founder of the consulting firm Teleos, he was an early advocate for Chinese companies moving away from cost-only business models towards ones that emphasized brand building, innovation and product development. He founded Teleos Healthcare which licensed, capitalized and commercialized the IP for an OTC medical appliance used to help stop nosebleeds. This company successfully partnered with a major US pharmaceutical company on the product launch for the hemophilia and VWD bleeding disorder community. In addition, Ben has successfully managed projects in China across a number of industries, ranging from consumer goods to more complex engineered products. He holds his MBA from Duke University in Durham, North Carolina.