

# Inside Healthcare Computing

*Trends, user reviews, and intelligence on health care information systems*



1990  
1996  
1997  
1998  
2002

## **China's Healthcare IT Market Is Ready to Explode, But Vendor Risk Runs Deep Without Careful Study**

reprinted with permission of the publisher from the September 15, 2008 issue

The Beijing Olympics captured the world's rapt attention in August, providing a carefully orchestrated and logistically impressive introduction of China as an economic superpower. Before and after the influx of athletes, however, Western companies were sending in an advance army of businesspeople to scout that country as an untapped source of potential growth. Its nascent healthcare reform movement is making it attractive to healthcare technology vendors and consultants as well.

### **Hospital Investment Risk Drives Further Study**

Long-time healthcare IT businessman Sheldon Dorenfest started The Dorenfest China Healthcare Group in late 2006 as a subsidiary of his Chicago-based company, The Dorenfest Group. He planned to make quick investments in Chinese hospitals, but what he's learned about Chinese business since then has compelled him to proceed more cautiously.

"We originally came as investors, but learned that we'd lose our money," Dorenfest tells Inside Healthcare Computing. "Chinese people are great, great businesspeople and doing business there is different. Westerners are vulnerable when they come to China. Everybody in China is a latent businessperson. That seems like a paradox for a Communist country."

Dorenfest recommends reading *Mr. China*, a book written by a British businessman who partnered with another entrepreneur in the early 1990s to buy Chinese businesses and make them profitable by applying Western methods. The investors lost their entire \$150 million pool of capital because they didn't understand the Chinese way of doing business. Firing inefficient employees caused riots, the anticorruption unit demanded bribes, and employees used company funds to start competing businesses.

### **Respect Must Be Earned to Do Good Business**

Unlike those investors, Dorenfest realized that his American frame of reference wouldn't necessarily serve him well in China. Chinese hospitality, real or scripted, often lulls Westerners into a false sense of camaraderie that can make bad deals look attractive. "When I would come to a city to meet with a health bureau, they would meet me at the airport," Dorenfest laughs. "They would give me a bouquet of flowers, whisk me off to a banquet, and toast me all night long."

*(continued on next page)*

This article is excerpted from Inside Healthcare Computing, and is (c) Copyright Algonquin Professional Publishing, LLC, P.O. Box 818, North East, MD 21901 USA, (877) 690-1871 <http://www.insidehealth.com/>.  
E-mail: [custservice@insidehealth.com](mailto:custservice@insidehealth.com).

Dorenfest felt he needed to earn respect on smaller projects to be taken seriously. In the past year, he delayed his planned acquisition of Chinese hospitals to instead focus on consulting. He hopes to develop a reputation as a capable, reliable Western company that can competently do business in China. Once that happens, he'll be more comfortable putting more capital at risk.

By late 2009 or early 2010, Dorenfest China will be ready to make hospital investments. He expects Chinese healthcare reform to take hold by then, with government-run pilot programs underway for delivering care to the poor. That will open up opportunities for Western companies who are further down the IT maturity curve, he believes.

### **Healthcare Cheap, But Below Western Standards**

Per-person healthcare spending in China is less than \$100 per year, Dorenfest says. Patients themselves pay more than 60 percent of costs. The growing middle class is dissatisfied with wait times and other inefficiencies.

Physician encounters in China last just a couple of minutes. That's because the average visit costs only around \$1, with super-specialists commanding up to \$5. Doctors have to see many patients to make a living, so they unceremoniously tell patients they don't have time to talk or answer questions.

Healthcare reform means bringing hospitals up to Western standards. Growth will be huge, Dorenfest predicts, with 2007's \$1 billion in IT spending growing to \$2 to \$4 billion over the next three years.

### **Healthcare IT Like 1970s Here**

China's healthcare IT market is small, Dorenfest says, but the software hasn't improved efficiency. "IT governance is like ours of the 1970s to middle 1980s," he explains. "Hospitals went out without functional requirements and bought software without really knowing what they were doing. Things we already know could be helpful to the Chinese healthcare system."

Dorenfest says that Chinese software is not "productized" as it is here. Customers expect vendors to perform on-site modifications after the sale. He expects that vendors will mature over the next five years and will learn how to make their customers happier. That, he says, presents opportunities for Western vendors who can "China-tize" their approach.

Software vendors should not expect to bring in their Western products unchanged and sell them for similar prices, he says. Chinese health officials want to benefit from the hard lessons that US vendors learned from installing and managing generations of systems. They hope to expedite their own maturity by not making those same mistakes.

### **Lesson: Even Google Has Failed in China**

Western vendors are at a decided disadvantage when trying to negotiate deals with Chinese businesspeople. Many of the most expensive mistakes occurred because companies failed to appreciate just how different the Chinese business culture is.

For example, Chinese laws regarding intellectual property are primitive compared to their American counterparts. That entails significant risk, particularly for software vendors providing products that local partners implement.

Few Chinese residents speak English, so working through a local interpreter adds complexity and uncertainty. In addition, Chinese businesspeople have not yet embraced the American idea of win-win negotiating, so they're eager to take advantage, Dorenfest says.

It's not just healthcare IT businesses that risk failure in the little-understood Chinese business climate. Google, eBay, and several other Internet companies have failed to gain ground against amateurish local competitors despite spending mind-boggling sums. They ended up settling for partnerships with their former competitors as a way to save a little face and get a piece of the Chinese consumer market.

Dorenfest is not waiting idly by until he's ready to invest in Chinese hospitals. "We've made sales and have a half-dozen customers who've paid us and are happy," he says. "We have a good reputation for delivering good work. We believe there's a window of opportunity because we're there ahead of a lot of the Western consulting companies." ■