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China's Healthcare Reform Creates Opportunities for Western Companies, According to Industry Veteran

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China's announcement in April of its three-year \$124 billion investment in healthcare system reform creates opportunities for U.S. companies that are interested in expanding their reach to help meet that country's health IT needs, according to industry veteran Sheldon Dorenfest.

"The time is right for Western companies to take a good hard look at China. They should stick their toes in the water while it's still early enough for them to take advantage of the opportunities," he tells *Inside Healthcare Computing*.

Dorenfest, who started a string of successful healthcare IT companies beginning in 1970, created The Dorenfest China Healthcare Group in late 2006 as a subsidiary of his Chicago-based consulting and investment company, The Dorenfest Group.

As part of a larger \$586 billion economic stimulus program, China's healthcare reform package includes universal coverage for 90 percent of its citizens. Additionally, healthcare facilities will be upgraded, including construction of thousands of hospitals and clinics across the country.

Instead of focusing solely on large magnet hospitals, which are notorious for the long waits to see physicians, the government plans to build local clinics to treat smaller problems and act as hubs directing traffic to bigger hospitals.

All of that growth needs information systems and management improvement to support it, says Dorenfest, which opens the door for Western companies who are willing to invest the time and resources to learn both about China's culture and how to do business there successfully.

Reform package focused on developing a state-of-the-art healthcare system

China has developed a state-of-the-art infrastructure, yet its healthcare system has remained one of its more primitive industries. Characterized by a huge development gap between cities and rural areas, low government funding, weak healthcare facilities at the grassroots level, and soaring medical bills, which fosters

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saving rather than spending, and gives China the dubious honor of having the highest patient pay-out-of-pocket cost in the world, the government pronounced its healthcare policy a failure in 2005.

“Since then, it’s taken China four years to come up with a new policy. That’s an unusually long time, primarily due to differing viewpoints among the various ministries that were involved. However, they all agreed that they wanted to give more healthcare to the poor people and to that end, they created a basic healthcare package,” says Dorenfest.

In addition to universal coverage, reform is also focused on lowering prescription costs and treatments. To compensate for low salaries, doctors often aggressively prescribe expensive and sometimes unnecessary treatments and drugs to take advantage of bonuses from drug companies. To lower prescription costs, the government will promote a system of essential medicines for state-run hospitals, clinics and pharmacies.

Avenues for entry into China’s marketplace

While Dorenfest believes that the Chinese market offers huge potential for Western companies, he cautions that it will be important for those companies to do their homework first. “The first thing Western companies need to do is become familiar with the differences between the healthcare systems of the West and the East. China is unique because of its focus on payment.”

Currently, when patients need to see a doctor, they visit the hospital’s outpatient clinic. They wait in line to register and then they wait to pay to enter the clinic. Once in the clinic, they wait in line again to see the physician. The physician examines the patient and orders tests or drugs, which the patient must pay for before receiving them. Then the patient has the tests and heads back to the physician’s office.

“Everything,” Dorenfest says, “is based on payment and a major focus of information technology will be to integrate the care and the billing.”

To begin to figure out how to do that, both the Chinese government and outside organizations have launched numerous pilot projects and feasibility studies. “The government pilot projects are often in many areas where differing opinions between the ministries exist. The government expects that the pilot projects will provide valuable information about what works and what doesn’t,” Dorenfest explains.

Other studies are funded by outside agencies and organizations. Such projects, Dorenfest believes, indicate a growing level of interest in creating opportunities in China for Western companies and consulting firms.

For example, the U.S. Trade and Development Agency (USTDA), working in cooperation with the Sichuan Health Information Center (SHIC), announced in August that it will award a \$570,642 grant to design a province-wide universal healthcare system based on an e-healthcare technology platform. The project is expected to lower healthcare costs, allow individuals greater control over health records and services, and provide higher quality healthcare services to rural regions, while opening commercial opportunities for the export of U.S. goods and services in conjunction with the project’s implementation.

The USTDA grant will support these efforts by funding a technical consultant to formulate a development and service strategy on how to build a province-wide Electronic Health Record filing system by 2020. SHIC will select the U.S. firm that will provide the assistance.

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Partnering with an existing Chinese company may also be an entry strategy for Western companies, although Dorenfest cautions against moving too fast.

“To develop the market and do your own selling is a big job, so partnering may be a good solution. However, some Western companies who have gone to the partner too early have gotten burned because they didn’t know enough about China’s business environment. It’s important to not only understand what your company wants but also what the Chinese partner wants,” he says.

Healthcare arena poised for explosive growth, supported by economic strength

Dorenfest credits China’s conservative fiscal policies with the country’s relatively strong financial position.

“China wasn’t affected as much by the financial crisis as the rest of the world. For example, China didn’t allow its banks to do credit derivative swaps. Due to its conservatism in its approach, its banking system wound up in a much stronger position relative to other countries. Because of its huge trade surpluses, it has been able to fund its stimulus programs more easily and, unlike countries in the West, hasn’t had to add that additional spending to an already huge deficit.”

Additionally, China has been an efficient investor and Dorenfest predicts that it will continue to be so. “For every dollar it’s spent in the past, it’s gotten a good return. There’s every indication that the country will take its \$124 billion investment, spend it efficiently, and end up with a state-of-the-art health system.”

Dorenfest notes that for the first time, HIMSS will be offering an AsiaPac’ 10 Exposition in Beijing May 26-28, 2010 and says that the event will provide a chance for companies to see for themselves what opportunities exist.

Dorenfest is bullish about the opportunities that China presents for Western companies, including his own. “We’re currently working with a dozen hospitals right now and we expect that number to grow significantly in the next two years.”

“When it comes to healthcare, China’s goal is to leapfrog the rest of the world. They’ve already shown that they can do it in terms of building infrastructure. There’s a strong possibility that they’ll be able to do it successfully in the healthcare arena as well,” he adds. ■