

Sheldon Dorenfest on H.I.T.

This month, GBI interviewed Sheldon Dorenfest, CEO of the Dorenfest Group, a healthcare investment and consulting firm focused on health care systems improvement. In this interview, Sheldon expands on the positives and negatives of the Chinese healthcare system, the status of I.T. in healthcare institutions, and the I.T. resources currently needed by the nation's physicians. Sheldon also discusses the entry of multinational I.T. providers, such as IBM and Microsoft, to the H.I.T. market and regulatory roadblocks to future progression of the sector. The complete audio interview can be found at www.gbipharma.com. For a biography of Sheldon Dorenfest, turn to page 51.

Q: Welcome to the show, Sheldon.

A: I appreciate being here, Jon. Thank you for inviting me.

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Q: Let's start with some highlights from your past. What brought you to China, and what activities have you engaged in since coming?

A: I am a serial entrepreneur and have formed many businesses, all in the healthcare industry, in the US and other countries. My first business was founded in the 1970s; it was a hospital computer software company that helped hospitals at a time when they were all manual. After that I had a series of other businesses, including one that did hospital operations improvement and another information business that profiled the I.T. efforts of all the hospitals in America. The profile was updated every year and it became the foundation of the sales and marketing of information systems of all the companies selling I.T. products and services in health. I eventually soured on the US healthcare industry. While the U.S. was spending more and more money each year, quality of care kept going down. I was in the improvement business, and I felt like I could no longer help my clients. I didn't like taking large checks without doing something useful for my customers. So I sold those businesses in the '90s; the last one I sold was in 2004. My entrée to China was in 1992, when I came to China to study Chinese traditional medicine. I was developing my own wellness program, and Chinese traditional medicine had a role in it. Twelve years passed before I came back again. I came to a wedding in 2004

and had an opportunity to see a remarkable change in China. I said, “Before I look at my next business venture somewhere else, I need to study China and India.” And that's what I did, and that's why I'm here.

Q: That's very interesting. How has it gone since your arrival?

A: Initially, I came to China as an investor. In 2005 I visited 17 cities, 100+ hospitals. In every city, there was a hospital the Chinese wanted to sell. Frequently the Health Bureau or someone else would meet me at the airport, bouquet of flowers in hand, whisk me to a banquet, and convince me they were trying to establish 'Guan xi'. The next day they would give me a piece of paper with a business deal on it. The business deal often was unclear. They wouldn't want to take me to the hospital unless I insisted, because they knew if I saw the hospital they were selling and the price they wanted, I wouldn't purchase it. They were selling these hospitals with the idea that if they could get a windfall income, they would sell. If they had to sell it at a fair price, they would rather run it themselves.

I concluded that I couldn't make investments here unless China valued the skill that I could bring. With that in mind, I created a two phase business strategy. Phase I was to trade on the skills that I developed over many years and in many other countries to help hospitals to improve work processes, management systems, and services to patients using I.T. components, and change management techniques. China had the problem with their I.T. where the more they used I.T., the less happy they were; so there was an opportunity for our skills. Our Phase I strategy included consulting, educating, and training in H.I.T. We have executed that strategy and sold projects to a number of clients in China. Our first client was the Shenzhen Health Bureau, a pilot site for the Ministry of Health's national goals to create a regional health network and a digital hospital in Shenzhen - we helped them with the plan to implement that project. After that, we sold projects to Shanghai Changning Maternity and Infant Hospital, Chongqing Health Bureau, Peking University Medical College No. 3 Hospital - one of the largest hospitals in Beijing, and to other hospitals as well.

Q: Over the past few years, you've had quite a bit of access to Chinese healthcare at a number of different levels. What are your thoughts on what Chinese healthcare is doing right and what it is doing wrong?

A: The Chinese healthcare system is one of the most efficient healthcare systems in the world. Mechanically, the doctors are very good, and the price of their services is very low - they deliver a lot for a low price. The employees per bed at hospitals in the US are 5 to 1; employees per bed here are 1 to 1½. That is a measure of their efficiency, but there are many other measures. On the other hand, in many ways, the Chinese healthcare system is one of the most primitive industries in China, in the sense that other industries are state of the art, and big investments have been made in them. In healthcare, the investment has been small, and the look of the hospital is fairly primitive. When we came here in 2005, Phase I of the healthcare reform was pronounced a failure. It took the Chinese government four years until 2009 to come up with a revised policy. The revised policy is ambiguous. Many people within the Chinese government disagree as to what the policy should be, so the policy involves a lot of pilot programs, and the pilot programs are not that clear. So, healthcare reform is going to be a very slow process. The one thing that will happen is that more money is going to be spent, because rural people are going to get basic care - there is going to be more money spent on health and more people getting healthcare than got it before.

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Q: One area that seems comparatively clear is healthcare information technology and the organization of information within the healthcare network. What do you see going forward from a healthcare information technology perspective?

A: China has been investing in information technology since the late '80s, primarily in financial systems, until the beginning of the current decade, when they started investing in I.T. systems for clinical services. The typical situation in China is, as they add more and more I.T., they add work instead of take away work. In China, as a very efficient country, that's a no-no - you don't add work. So the hospital leaders who run these hospitals are very unhappy and hesitant to invest more, but they know that they must invest more and are frustrated as to how to do that efficiently. That environment establishes the opportunity for our message and our business. In the healthcare reform, there are eight pillars supporting four girders, as China likes to describe things, and one of those eight pillars is information systems. Whatever value information systems were before, they are more important now. While the opportunity for products/skills/services from the West exists here in China, it's just very difficult for the Western mind to adjust to China. Many of the organizations that have come here to look at the H.I.T. market, have come here and gone back home, because they could not adjust to the situation here. That's an important thing to learn how to do; there is a big market here in H.I.T.

Q: What specific resources do you think physicians need in China to aid their decision making process and allow them to practice better medicine?

A: All people who need healthcare in China start out with a visit to a hospital outpatient clinic. For example, one of our clients, Peking University Medical College No. 3 Hospital has 8,000 outpatient visits per day. That is a lot of activity. The registration process gets the patient to a clinic, and then they wait in line to see the clinician. The clinician, if it were an all-manual hospital (which isn't true of Peking University No. 3 Hospital) the physician would be writing orders, writing in the outpatient medical record that the patient brings to the hospital, and writing on various forms to make sure that he has a record of every patient that he sees, so that [the hospital] cannot not pay him for the patients he has seen. One place where automation is very valuable for the physician is an outpatient physician workstation that would allow some of the steps to be done once instead of multiple times and would improve the efficiency of the physician so that he can see more patients. One problem with the outpatient workstation is that in China there is a government policy, which some hospitals follow and some hospitals don't, that says you have to hand-

write in the patient's outpatient record. So, if you have to hand-write in it and you have a computer, you would have double the work. You either need to get an exception to the policy, not follow the policy without an exception, or follow the policy and do double the work. Sometimes that problem is not seen until after the system is implemented. That other area where the physician can be helped is with EMR [electronic medical record]; the physician does a lot of things that could be made easier and faster with an EMR.

Q: How about computerized order entry, whether for procedures or for prescriptions? Do you find that there is room for efficiency on the physician side, or would that contribute more toward operational efficiencies in the pharmacy part of the hospital?

A: Presently, in the manual system, the physician writes the orders. In a partly automated situation, he also writes the orders. If he has an outpatient workstation, he could enter the orders into the computer and communicate them to all of the service departments; that makes the hospital more efficient. If the physician has to hand-write in the outpatient record, it makes the physician less efficient. So, depending upon how they implement the system, the physician can be more or less efficient on the order entry process. On the inpatient side, we are finding that it is sometimes better to let the physician evolve into the order entry process. If the physician is a computer whiz, then

let him enter the orders as soon as he wants. If the physician is hesitant about the computer, then let him wait and keep the order entry process the same, and let the physician get used to the electronic medical record and its benefits.

Q: Have you found that there is stronger interest from certain stakeholders versus others? For example, are the pharmacies more interested in implementing H.I.T systems, versus physicians, versus the general administrators? Are there any stakeholders that seem more or less motivated to move forward in the healthcare I.T. area?

A: In many cases, the motivation comes from the I.T. department. Most people are happy doing the work the way they have been doing it. They have too much work to begin with, and they know that if they have to change, it will be more work. There isn't a lot of motivation from the people until they get a bad system. When they get a bad system, then they are motivated to make it better, because it is creating inefficiency for them, something they don't like. The ancillaries, often the laboratory, see the benefit; the pharmacy sees the benefit; the radiology department sees the benefit. Depending upon the situation, one system may come before the other, but there are probably more [laboratory information systems (LIS)] installed in Chinese hospitals than any other clinical application. Pharmacy systems are installed more than LIS, but frequently, the pharmacy system only does financial work, simply making sure that the money gets accounted for, whereas LIS could be a more comprehensive system.

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Q: Interesting. So the pharmacy system is not actually checking for contraindicated medicines in certain patients or adverse reactions between medications....

A: In between money and adverse reactions are lots of benefits for the pharmacy, so more advanced users are getting more benefits, such as inventory control, aid in filling the prescriptions, and other benefits. The contraindications and allergic reactions are really not being used in China yet.

Q: Several large corporations, IBM and Microsoft, for example, have recently come to China in the healthcare technology area and started some preliminary activities. What is the competitive landscape from your perspective? Who's here and is there room for a large number of other

companies? At what area of the value chain do you see competition being more or less intense?

A: IBM is probably the biggest western company in the Chinese healthcare market selling hardware and various other products for many years. It made its first consulting sale in September of 2005, and the Dorenfest China Healthcare Group was part of that sale. The sale was to Tongren Hospital in Beijing. We are also partnering with IBM in Hong Kong. Hong Kong Hospital Authority was thinking of commercializing their software for the China market. There is a great interest in China for Hong Kong software, because Hong Kong is one of the most advanced users of I.T. in health. IBM probably has 15 to 20 clients right now and is currently the number one consulting firm. Some of their consulting is product development, some of their consulting is strategic planning, and some of their consulting may take on variations between those things. IBM has a good opportunity here as long as they apply their Western mind in the Eastern way, which they seem to be doing well so far. We are the number two consulting firm in

China right now, and we have about half the clients that IBM has. The market that exists is very small; the potential market is very large. We are finding that wherever we educate, our message is resonating, and

that is how our prospects are developed. Microsoft is a client of the Dorenfest China Healthcare Group. We helped them to create a China entry strategy, and they are now in the early stages of executing that strategy. I think if they follow our advice, they will be a very big player in China. China's software players are going to mature, and a whole new generation of products will come about. Microsoft has the opportunity to be the leader, and that is a great position to be in. There are other western companies nosing around, and many of them are nosing around in ways that won't work. Some have proven that by coming and going. Others are getting ready to prove that, but they still haven't gone.

Q: Healthcare data is a two-way street. What is your experience with getting data out of hospitals so that you can do some benchmarking and decide how to move forward? And as you implement more healthcare I.T. systems, there will be increasing amounts of data saved. What do you think the Chinese government will do with that data? Will they make it available to other parties?

A: Based on history, [the government] won't make it available. The data is there. Even when they have a manual system, hospitals file a manual report with the health bureau. It's a confidential report, and you have to do a lot of things to get to see that report that is in the hands of the health bureau. Mak-

ing data available to Westerners is not a short-term likelihood. If there were some benefit to somebody to make it available, if it was a situation where they could see the benefit and understand what they were giving up, there might be a possibility. But it is something you would have to negotiate, and it is not likely to be negotiable right now.

Q: Do you see any institutional or regulatory roadblocks to the roll-out of improved healthcare I.T. systems in China?

A: Westerners in China are here at the pleasure of the Chinese government. As long as the Chinese government has a need for what the Westerner brings, Westerners are here and can function. If the Chinese government feels that they no longer have a need for what the Westerner brings, then they put constraints around the Westerner's ability to perform. That is the biggest constraint outside the hospital itself and its willingness to buy that I see, and it's something to worry about. A western software company, for example, needs approvals; there are various things that have to be done and a lot of hoops to jump through.

Q: You mentioned earlier that when you first came to China you were looking to make investments into hospital infrastructure. Has the climate changed? Are you still interested in making investments in this area?

A: The climate and my interests are two different things. The climate is likely to be better for foreign investment. I say 'likely' because it is very unclear how that is going to come out of the health reform and pilots programs. I believe it is likely that there will be an international hospital segment of the market that will encourage participation from foreign investors, and it's just a matter of finding the right deal. There are many competitors in the private market side; the competitors are Taiwanese, Hong Kongese, sometimes, but not necessarily, healthcare experts. In the international market, what they want from the West are healthcare experts, so there is an opportunity. For the Dorenfest China Healthcare Group, it's too early to be an investor. Our idea of investing is to build the value of our skill, so that Chinese hospitals say 'this is a good company and we need their skill.' We are doing that and having success with that, but not enough yet. The second thing is that we want to find projects where a Chinese city and the Dorenfest vision are aligned and where the Chinese city feels they need Dorenfest to help them accomplish their vision. Under those circumstances, whatever

we invest with that city, it will be at a fair price. That's what we are looking for – a fair price and a good return when we make an investment.

Q: What do the next few years hold for the Dorenfest China Group? Are you considering some investment, or pursuing consulting and implementing hospital systems?

A: The world is in a transition. It's hard to think about three years out, because the world three years out is going to be different than the world today. You have to roll with changes that are almost unforecastable at the present time and develop your strategy to match those changes. So, I'm thinking of the next year. In the next year we are going to do more consulting, sell more clients, do good work, make some money, and have happy clients, a larger staff, and success in China. That is our next year's strategy, and I think we are well on our way to doing that. If that is very successful and the world looks like it does now, we might move into investment in the following year, but I suspect even one year from now, the world is going to look different.

Q: Can you share some general recipes for success in China?

A: In China, there are thousands of people waiting at the boat to greet you when you first get here. Each one tells you that they can open the door to your future. They tell you that they can introduce you to important people, that their introduction will immediately get you results, and that your business will develop. That doesn't work. They may actually be able to introduce you, but to get business out of that introduction is quite a task. What works here in China is to start at the bottom, understand what is going on, form relationships, visit the hospitals, get to know the people, and form your own understanding of how to position your product in this marketplace. It is not possible to enter a joint venture in stupidity. If you want to enter a joint venture, you need to come to that joint venture as an equal partner. To come to China and spend three days here, negotiate a venture, and go back home is not going to work. If you can't invest your own time to do it, you need to hire somebody you trust to do it for you.

Q: Thank you for joining us, Sheldon.

A: Thank you.