

Using an outcome-based procurement approach

OFFICE OF THE CHIEF ADVISOR - PROCUREMENT



Queensland
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Introduction

The Queensland Procurement Policy (QPP) clause 4.1 requires agencies to pursue opportunities to develop innovative supply solutions, either through innovation in the procurement activity itself, or by fostering innovative solutions by suppliers.

Adopting less prescriptive, outcome-based approaches where appropriate, can support increased market innovation.

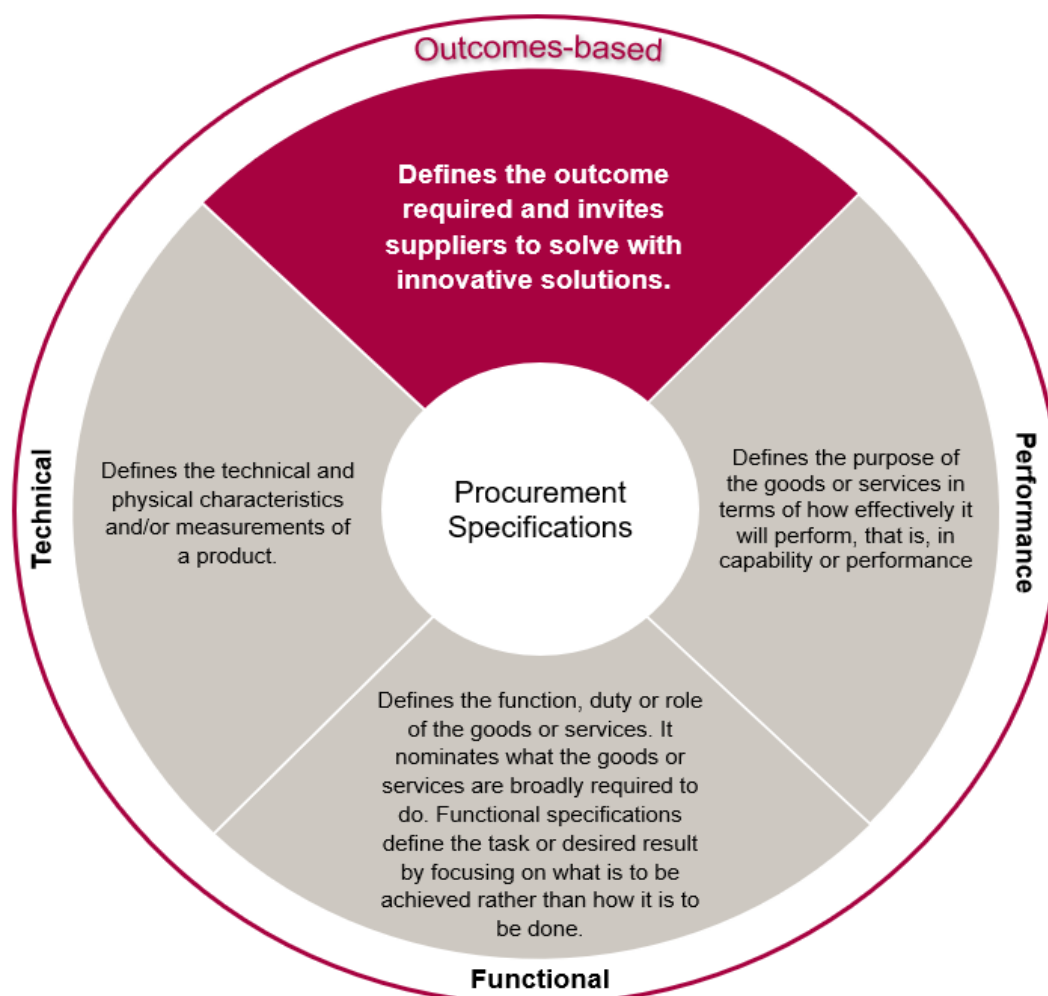
The purpose of this guide is to:

- introduce procurement using outcome-based specifications as an option for seeking innovative supply solutions
- assist procurement planning by identify opportunities and challenges unique to outcome-based procurement
- provide a readiness assessment to assist agencies considering this approach.

What is an outcome-based procurement approach?

Outcome-based procurement seeks innovation from the supply market by focusing on the agency outcome required rather than defining *how* the outcome should be achieved. Using outcome-based specifications, this approach allows suppliers to propose innovative solutions that may otherwise be excluded from a conventional tender process. **Figure 1** demonstrates the relationship between outcome-based specifications and conventional specifications.

Figure 1 – Procurement specifications



When would an outcome-based procurement approach be suitable?

Suitable when:	Unsuitable when:
<ul style="list-style-type: none"> ✓ Opportunity exists to investigate better ways of delivering services ✓ Supply market innovation offers a better way of doing things 	<ul style="list-style-type: none"> ✗ Business critical goods/services that cannot be exposed to the inherent risks of seeking innovation ✗ Inherent limitations exist, such as specific technical requirements of existing infrastructure, plant or equipment ✗ Business services that are not appropriate to be outsourced due to elements such as confidentiality or agency requirements¹

What benefits can outcome-based procurement produce?

By using outcome-based specifications that allow suppliers to propose innovative solutions such as new technologies, services or business models (that may have otherwise been unknown to the agency), the following benefits can be achieved:

- efficiencies
- increased service levels
- increased customer service
- cost savings.

What is required?

Define the outcome clearly

Before you start planning, you need to be very clear about the desired outcome, ensure it is properly scoped, and have a robust rationale for proceeding.

This is a foundation step, and not doing it properly can impact the effectiveness and efficiency of the procurement process, the suitability of the solution and ultimately, value for money.

Importantly, the Project Assessment Framework notes that:

The aim is to state the outcome in terms that are sufficiently broad so as not to restrict the range of potential solutions, but not so broad that it may be open to endless interpretation. The assessment should involve a structured and analytical process to define the outcomes sought and then guide the development of innovative solutions that maximise value.

Refer to the Project Assessment Framework for more information about scoping outcomes.²

¹ Queensland Department of the Premier and Cabinet (2016) *Contracting-out of Services Policy*, www.forgov.qld.gov.au/documents/policy/contracting-out-services-policy

² Queensland Treasury (2015) *Project Assessment Framework: Strategic Assessment of Service Requirement*, <https://s3.treasury.qld.gov.au/files/paf-strategic-assessment-service-requirement.pdf>.

Readiness assessment

To assist in determining if this approach is appropriate for your procurement activity, this section provides a four-step readiness assessment consisting of:

Readiness assessment	Timing in procurement process
Step 1 – Agency requirements	Procurement planning
Step 2 – Agency readiness assessment	Procurement planning
Step 3 – Supplier requirements	Market research and/or early market engagement
Step 4 – Evaluation planning	Evaluation plan

Lower levels of agency readiness may not exclude an outcome-based approach, rather it may indicate further research is required before commencing the procurement activity.

Additionally, compliance with each step above does not replace the strategic evaluation of procurement methods available to deliver the greatest value for money.

Step 1: Agency requirements

This section identifies agency information required during the procurement planning phase.

Agency requirements	
Can the outcome be defined, and does it allow for innovation?	<p>The outcome-based specification must be articulated in a clear, measurable and achievable way.</p> <p>The challenge involves setting a level of detail that meets minimum agency requirements (such as mandatory business processes) while also allowing suppliers enough scope to propose innovative solutions. The outcome-based specification in Appendix 1 demonstrates some of these considerations.</p> <p>Developing specifications guidance is available to assist this process.</p>
Have stakeholders been identified?	<p>As outcome-based procurement is not a conventional “off the shelf” solution. Decision maker buy-in at the start and continued involvement during the process is vital to the success of the procurement activity.</p> <p>Stakeholder engagement can also assist in:</p> <ul style="list-style-type: none"> • verifying the outcome-based specification – has anything been overlooked or inadvertently changed due to this process? • identifying existing solutions • identifying alternatives solutions: <ul style="list-style-type: none"> - what alternatives have been researched and/or tried (if any)? - are there existing projects underway to address this business solution?
Can you articulate your current and desired state?	<p>Current state (baseline) data allows:</p> <ul style="list-style-type: none"> • design of supplier key performance indicators (KPIs) • visibility of supplier performance against these KPIs • identification of what outcomes would happen anyway (regardless of supplier intervention). <p>Where this data is not available, there may be an initial transition period to collect and baseline this data.</p>

Step 2: Agency readiness assessment

To successfully conduct an outcome-based procurement process and receive the benefits of supply market innovation, the following customer behaviours are required:

Agency readiness
Willingness to be open to new and innovative ideas.
Willingness to change current business as usual (BAU) practices to adopt an innovative solution.
<p>Willingness to commit resources. These may include:</p> <ul style="list-style-type: none"> • procurement officers with relevant experience and skills to conduct the process • early market engagement • legal advice ranging from intellectual property (IP) ownership to developing a customised and flexible commercial arrangement • change costs to implement the innovative solution • project risk identification and management. When procuring an unproven (market first) solution, the following risks may be introduced: <ul style="list-style-type: none"> - project failure – supplier unable to deliver outcomes - underperformance – this risk may be unacceptable for an agency that must deliver these services. Therefore, regardless of the contract design, this risk cannot be transferred to the supplier - supplier financial failure due to elements such as research and design costs/not meeting consecutive KPIs tied to milestone payment • suitably skilled contract manager (when using detailed KPI/payment schedules).

Step 3: Supplier requirements

Much like the agency readiness assessment, supplier willingness to meet the unique requirements of an outcome-based procurement process must be understood. This can be achieved by:

1. early market engagement such as industry briefing sessions
2. [supply market analysis](#) guidance outlines options of:
 - desktop supply market research, or
 - market sounding activities such as Expression of Interest (EOI) or Request for Information (RFI) processes.

TIP: Early market engagement has the added advantage of giving suppliers a chance to understand your need, research existing options and provide an opportunity to form partnerships.

Supplier readiness
It is important to understand if that market has capacity or willingness to address the outcome-based need.
As the supplier decides <i>how</i> it will deliver on agency requirements, willingness to operate with in good faith and in an open and transparent manner is vital. This may also include increased communication and/or reporting (as compared to a conventional supply arrangement).
Willingness and internal capacity to actively manage the contract (when using detailed KPI/payment schedules).

Step 4: Evaluation planning

This step aims to assist evaluation planning by highlighting challenges unique to an outcome-based procurement approach and should be read in conjunction with [Evaluating offers](#).

Due to the nature of seeking innovative solutions, outcome-based procurement raises the potential challenge of having to evaluate significantly different offers that all produce the same outcome (i.e. one supplier may offer a business improvement solution, while another supplier may offer an outsourcing solution). Strategies to overcome this challenge include:

- requiring suppliers to clearly identify how their offers meet mandatory, desirable and/or optional requirements
- extend evaluation questions beyond the proposed solution, this will allow evaluators to also understand and compare the strengths and weaknesses of key personnel or the company itself. This can also assist in identifying areas to explore as part of negotiations or the due diligence process. **Appendix 2** provides examples of non-price evaluation questions relating to innovative solutions
- work with other procurement professionals to discover lessons learnt or develop the evaluation approach. Areas that can assist:

Contact	Contact details
Procurement Category Councils	www.forgov.qld.gov.au/procurement-governance-framework
Small Business Innovation Research	advancequeensland@qld.gov.au
Testing Within Government	twig@dsiti.qld.gov.au

Procurement considerations

To build on the challenges and opportunities identified by the readiness assessment, and ensure innovative benefits are realised, it is important the following considerations are carried into the tender documentation and the resulting contract:

- appropriate legal advice is received so that topics such as Intellectual Property (IP) ownership and risk allocation are clear to both the procuring agency and the supply market
- KPIs are developed and embed in the contract (guidance is available to support this process: [Managing and monitoring suppliers' performance](#))
- communication expectations are clear and the contract is actively managed. This is especially important when managing incentivised payment schedules.

Tip: As an outcome-based procurement approach seeks innovative solutions, consider an open market tender to prevent inadvertently excluding unidentified suppliers and their solutions.

Appendix 1 – Example of framing an outcome-based specification

The following simplified case study demonstrates an outcome-based specification with consideration around minimum requirements and benefits while allowing scope for innovation.

Scenario

The patient entertainment system of a local health care facility is due for replacement. The current system consists of wall mounted television units.

Request for Information (RFI) specification

Agency A is seeking information from organisations that possess the systems and technologies to install and maintain a patient entertainment and interactive solution.

Objectives

The objectives of this process are:

- investigate all options in determining the best solution to meet the business needs of the agency
- consider innovation now and beyond today, what are the future value adds
- ensuring cost affordability to patients should user-pay form any part of a solution.

Mandatory requirements

Agency A has identified the following minimum outcomes of any proposed solution:

- ability to operate within the local health care facility environment, including clinical beds, wards, waiting rooms and outlying patient area
- continuity of access when patients are relocated within a facility or across other facilities should more than one facility take up a solution (not fixed to original point of access)
- access controls for the hearing and vision impaired
- media content must be refreshed regularly.

Desirable requirements

Agency A has identified the following desirable requirements of any proposed solution:

- bring your own device (BYOD) access
- instant messaging service from clinicians to patient via device e.g. discharge clearance notifications, appointments, surgery reminders
- integration of building management systems for improved workflow in assigning maintenance
- access to personal media accounts
- conduct electronic patient surveys for improved patient care delivery
- telephone options
- ability to integrate nurse call function.

Appendix 2 – Example evaluation questions

	Proposed solution	Key personnel	Company
Capability	<p>Ability to achieve the outcome against mandatory, desirable and/or optional requirements.</p> <p>TIP: when evaluating a conceptual solution, test the robustness of plans/methodology to deliver the outcomes. This may extend to testing the suppliers evidence/case study base and relevant experience they are relying upon.</p>	<p>As key personnel are critical to the outcomes-based working relationship, it is important for the agency to identify key personnel and understand their:</p> <ul style="list-style-type: none"> • demonstrated ability to work collaboratively • demonstrated ability adapting to agency culture and/or frameworks • questions may include: <ul style="list-style-type: none"> – agency obstacles incurred and how you overcame these? – what is the current post-delivery relationship with this client? 	<ul style="list-style-type: none"> • Product/service roadmap relating to the innovative solution. • Maturity of company. • Demonstrated ability to work collaboratively (i.e. company partnerships). • Demonstrated ability to work with a customer to mitigate external project risks.
Capacity	<ul style="list-style-type: none"> • Can the solution scale to meet future growth? • Can the solution adapt to changing agency working environments (i.e. future policy changes)? • Significance of solution benefits to the agency. 	<ul style="list-style-type: none"> • Availability of key personnel throughout procurement process and ability to scale up/down during heavy stakeholder processes such as implementation/staff training. 	<ul style="list-style-type: none"> • Supplier financial viability (as investment may be required for research and design). This can be achieved via: <ul style="list-style-type: none"> – supplier declaration, or – audited financial statements.
Experience	<ul style="list-style-type: none"> • Has the proposed solution been successfully applied elsewhere? • Has the solution worked for a customer of the same size and in the same industry? 	<ul style="list-style-type: none"> • Experience relating the proposed solution. • Experience relating to the agency's industry. • Experience delivering outcome-based projects. 	<ul style="list-style-type: none"> • Experience relating the proposed solution. • Experience relating to the agency's industry. • Experience delivering outcome-based projects.