



**HEALTHCARE
Supply Chain Network**
CONNECT • INNOVATE • COLLABORATE

OUTCOME-BASED SPECIFICATIONS GUIDE

Table of Contents

1. BACKGROUND.....	1
2. DEFINITION.....	1
3. SPECIFICATION DEVELOPMENT	2
3.1 Determine if an innovation procurement process is required.....	2
3.2 Engage the Stakeholders and Form the Project Team	2
3.3 Define the Need	3
3.4 Gather the Data.....	3
Internal financial and/or volume data.....	3
Internal qualitative data.....	3
External market data.....	4
3.5 Develop the Specifications	4
Performance Metrics	7
4. IMPORTANT NOTES.....	7

OUTCOME-BASED SPECIFICATIONS GUIDE

1. BACKGROUND

There is increasing awareness of the impact innovation has on patient outcomes, and to facilitate the adoption of innovative technologies, Health Service Providers (“HSP”) are adopting procurement practices that focus on outcomes and emphasize value-based procurement. This has grown in part out of the work of Professor Michael Porter (“What is Value in Health Care?”) and others, who developed the concept of value-based healthcare as a framework for achieving better outcomes that matter to patients, optimizing the cost of care delivery to the health system. In this context, the product/service that performs best, providing the highest measurable quality outcome relative to need at the lowest cost, is the product/service offering the highest relative value. The Conference Board of Canada defines value-based procurement as a process that creates healthcare value by, among others, placing emphasis on overall system value.

Michael Porter has said that value should depend on results, not inputs, so value in healthcare should be measured by the outcomes achieved. This principle is further supported by the EU approach to value based procurement: MEAT (most economically advantageous tender), which emphasizes the outcomes that matter for patients and for the system, leading to evaluation of that value vs. cost. This is a critical shift, especially when HSPs are seeking to address problems for which there is no known solution. When HSPs issue traditional competitive procurement documents, they include requirements about the equipment, goods or services: what is to be procured, how it is to be delivered or performed, etc. Typically, these requirements take the form of detailed technical specifications, which may limit options and result in incremental improvements rather than innovative solutions. In addition, traditional procurements often result in decisions based on the lowest price, because evaluation criteria are too narrowly defined to impact the award.

Outcome based specifications require a new approach to evaluation, using criteria that assess value, ability to achieve performance metrics, risk and reward etc. rather than the ability to meet narrow technical specifications. Please see the companion guide on value based evaluation criteria for additional guidance.

2. DEFINITION

Outcome-based specifications (or “OBS”) describe the function or performance that a solution (equipment, goods, or services) must fulfil for the stakeholders; in other words, what the solution should do. This type of specification is preferably concise and allows for flexibility in determining how a specific need can be met.

Proper OBS should be written in performance terms, which focus on the function of the solution required. By describing what is to be achieved rather than a fixed description of exactly how it should be done, OBS encourage innovation in the market place, by allowing proponents to propose new and transformative solutions.

Overly prescriptive requirements can stifle a proponent’s ability to offer innovative solutions. In any innovation procurement, the specifications should permit a range of solutions, balancing

achievability with current or future capabilities. To facilitate this approach, HSPs must clearly communicate the problem an innovative solution should solve, as opposed to the solution itself.

3. SPECIFICATION DEVELOPMENT

Once an opportunity/need is identified, an early market engagement exercise will help you determine if an innovation procurement process is required. It is important to engage stakeholders prior to commencement of the EME, and to help develop the OBS and corresponding evaluation criteria. The steps in the process won't necessarily be sequential or "one off" activities, as this is a process of continuous improvement and could involve revisiting each element a number of times.

3.1 Determine if an innovation procurement process is required

First, the HSP needs to determine whether the problem can be solved, or the need can be met, without committing the time and resources to an innovation procurement process. The HSP might ask the following questions:

- 1) Does a solution already exist in the market?
- 2) Do we have enough time to conduct an innovation procurement?
- 3) Do we have the financial/human resources required to run the process?
- 4) What is the difference in value-add between an existing solution that meets basic requirements versus an innovative solution that achieves a given set of outcomes?

If the answers to these questions suggest an innovation procurement approach will best meet the needs, then outcome-based specifications should be developed as the next step in the process.

3.2 Engage the Stakeholders and Form the Project Team

Stakeholder engagement is critical to the success of developing both the OBS and the associated value based evaluation criteria. Typically, an internal stakeholder (this could be anyone in the organization) will come forward with a problem to be solved through an innovation procurement process. This individual, or Process Owner, will work closely with the procurement lead to engage the rest of the project team. As with a traditional procurement, the composition of the project team will be dependent on the subject matter and scope, and the success of the initiative will depend on having the right team, able to provide insight into departmental and organizational priorities, clinical and business requirements, as well as providing a patient perspective (the idea may even have started with a patient suggestion). Senior Leadership buy-in and support will be essential, in engaging physicians, endorsing what will likely be a lengthy commitment of time and resources and approving any associated budget allocation to allow the procurement to take place. Senior Leadership may even be called upon in the event there are competing priorities, to provide guidance and prevent the initiative from stalling. The associated Shared Services Organization can be an excellent resource for gathering stakeholders if multiple HSPs are involved.

3.3 Define the Need

The next step is to define the need and then to develop a problem statement, which should state the problem, not the preferred or anticipated solution. The full project team should be involved in developing the problem statement, and remain engaged at every step of the process.

Start by briefly setting the context, and ensure the facts presented in the problem statement are relevant and compelling. Include metrics if they are available. More information on this process is available in the Early Market Engagement Strategies Guide.

3.4 Gather the Data

The next step in developing outcome-based specifications is to gather both internal and external data, such as:

- Internal quantitative data such as financial and/or volume
- Internal qualitative data
- External market data

Internal financial and/or volume data

The basic financial data for repeat purchases can usually be derived from annual budgets, but may not be as easily derived for a new concept or solution. This may require estimates based on market data and environmental scans. If the HSP issues an RFEI, it is possible to solicit order of magnitude pricing information. When gathering the data, the HSP should consider the total cost of ownership (e.g. energy consumption, waste charges, consumables, etc.), not just direct purchase costs (*see Total Cost of Ownership Guide for more information*).

Internal qualitative data

The following questions serve as a general guideline that can be supplemented with other specific organizational questions, if necessary:

- What is the relationship of this need to other solutions (e.g. is it part of a larger project, or a standardization program?)
- What do the stakeholders really need? (defined in the problem statement)
- To what extent does knowledge about this need exist in the HSP and/or with proponents?
- Is there a current state or is the problem looking for a net new solution?
- What are the pain points that impact the HSP in the service delivery?

External market data

Conducting a market analysis begins by clearly defining the market and determining the scope and depth of the analysis. This is the time to launch an early market engagement strategy, such as market sounding or an RFEI, to inform potential proponents about the problem and to develop an understanding of the market potential. This provides the opportunity to collect data and insights from the market that will inform the development of, and validate, the OBS and the value based evaluation criteria. (*See the Early Market Engagement Strategies Guide for more information*).

Questions the HSP might put to the market include:

- What are the latest relevant innovation developments in the industry?
- What evidence exists related to existing solutions to the problem?
- Is it possible to purchase alternative solutions (equipment, goods, and/or services)?

3.5 Develop the Specifications

Outcome-based specifications should be developed to encourage innovation and to allow multiple solutions for the problem. Engaging in EME strategies such as market sounding provides an opportunity to test the OBS (and associated value-based evaluation criteria) on the supplier community, potentially enabling collaborative discussions to improve the OBS or even to build joint solutions.

OBS should focus on outcomes that are important for the HSP and reflect organizational or program priorities. Examples of these include:

- Clinical outcomes
- Patient values
- Value for money
- Technological outcomes
- Operational efficiencies
- Organizational outcomes
- Privacy and security

How an HSP develops OBS will depend on an HSP's specific need or problem, as well as the market's maturity and capacity for innovative solutions. However, there are some common guiding principles that can be applied when developing OBS:

- Ensure specifications are as outcome-based as possible, stating desired outcomes but not prescribing how proponents should achieve this;

- Present specifications in generic and/or functional terms specific to the business needs; they should be S.M.A.R.T.: Specific, Measurable, Achievable, Realistic, Time Based;
- Specify standards when necessary, rather than including as routine;
- Ensure requirements are appropriate to size and complexity;
- Develop measurable performance standards tied to the required outcomes;
- Consider how you will incorporate risk and reward related to achieving the outcomes;
- Ensure all of the elements included in the value-based evaluation criteria are clearly set out and correlate directly to the OBS.

An example of OBS developed for the cardiac innovation procurement initiative run by Southlake Regional Health Centre in Ontario can be found here ([SRHC – Outcome Based Value Statement Evaluation Template](#)).

Similar to specifications for a traditional procurement initiative, OBS should:

- Provide the current state of the problem;
- Provide clear objectives and deliverables;
- Address potential future requirements;
- Use plain and simple language;
- Contain clear timeframes;
- Use appropriate quality standards where they exist;
- Reflect whole-life costs;
- Set sustainable performance objectives;
- Identify environmental requirements;
- Include risks identified through market analysis and early market engagement;
- Encourage proposals from SME organizations;
- Include health and safety considerations; and
- Provide flexibility for subsequent requirements.

Equally important, OBS should not:

- Be prescriptive; no requirements that restrict or limit potential solutions;
- Use trade names or brands;

- **Breach copyright;**
- **Use needless acronyms;**
- **Discriminate on the basis of country/province/region;**
- **Be ambiguous; and**
- **Be biased towards any particular supplier.**

Performance Metrics

Outcomes demonstrate the value of a solution, and by establishing performance metrics linked to the OBS, the HSP can demonstrate how they will measure whether their desired outcomes have been achieved. These performance metrics should be developed and refined throughout the early market engagement and procurement phases, and will be explicitly captured in the subsequent agreement(s). This will allow the HSP to manage the contract effectively, and continuously monitor whether the metrics are being met.

4. IMPORTANT NOTES

This guide is intended as a resource tool to assist HSPs in developing competitive procurement processes for innovative solutions. It is intended as a general reference, with commentary on issues and options with various innovation procurement models and features. This guide (and the accompanying templates) do not replace your organization's own procurement policies and processes. The IPT has been designed to be compliant with the BPS Procurement Directive. Organizations should seek legal advice on the application or modification of any template to meet their individual circumstances.

Please read the terms upon which this guide is provided at www.hscn.org. This guide is intended to be a dynamic document and will be updated over time.

Sources used for developing the documents in the HSCN Innovation Procurement Toolkit can be found in the [Compendium of Resources](#) posted on the HSCN website. These include examples of how organizations in various jurisdictions have executed early market engagement strategies and innovation procurement initiatives, with their lessons learned and supporting documents.