Oracle Corporation

Input to PMC ICT Procurement Review

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Introduction

Oracle is pleased to provide input into the Australian Government's review of Government ICT Procurement.

Oracle is one of the largest ICT companies in the world, providing products and services across hardware, software and Cloud services to more than 420,000 customers globally. We are a major supplier to the Top 20 Governments in the world, including Australia. More information can be found on our website www.oracle.com. See http://www.oracle.com/us/corporate/oracle-fact-sheet-079219.pdf for an overview of Oracle's business.

Specifically in Australia, Oracle employees more than 2,000 staff and is a major supplier to all Governments at Federal and State level in particular. We also have a significant customer base in local Government and Higher Education. Globally, more than 30% of Oracle's annual revenue comes from Government, and its first customers were the CIA and FBI in the US Federal Government.

We have put together our thoughts on the prompts provided by the Department of Prime Minister and Cabinet, which are outlined further down. We also have some input directly in relation to Oracle's ongoing business with the Commonwealth.

We would welcome the opportunity to discuss this feedback with the Department of Prime Minister and Cabinet and the Digital Transformation Agency direct, as well as to canvas any other issues relevant to the ongoing consultation process.

Input on Questions to Prompt our Thinking

Overview

> 1. How can the Australian Government make better use of ICT procurement to increase innovation in government services? What are the incremental and more transformational changes that should be made?

Oracle suggests the following incremental improvements in the ICT procurement process:

- Seek input to new projects early without introducing the usual "tendering" constraints. For many companies, they often need to spend too much time addressing internal and legal approvals to the detriment of providing innovative ideas
- Look for ways to be more open with suppliers who will often provide useful information in return for access (empower Government staff to use common sense in determining who they meet with).
- Commit to regular HQ visits with key vendors to get detailed product roadmap information, industry trends, etc. For many multinationals including Oracle, there is much to be gained from speaking directly with the top Executives in the company about their strategy especially for Public Sector.
- Commit to regular global site visits with other major clients across industries from key vendors.
- Get more commercial experience into procurement teams.

Other more transformational suggestions are:

- Panels often don't consist of the "cream" of companies in a particular space. Frequently the innovative companies others look up to (or analysts rate) do not participate, and the panel is filled with companies with no specialization. More market research and smarter criteria might improve this.
- For larger agencies it would be beneficial to brief industry on priorities and challenges and their IT impacts periodically not just for specific tenders.
- The Government could consider looking at models for "collaborative competitive dialogue", particularly in ICT innovation. These models are seeing some success in overseas jurisdictions, see for example
  http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/h2020/topics/ict-33-2017.html.

> 2. Has there been a time that you tried to provide innovative ICT solutions to the Australian Government and failed? Please provide examples about what happened, why, and what you think the impact was.

Oracle has seen many examples of ICT procurement where the most innovative solution has lost. Software-as-a-service and cloud solutions are currently one area where innovation is offered but take up is low. The reasons why the most innovative solution was not selected are many and varied, but they revolve around a few key points:

- The funding model for the project/program was heavily skewed to Capex.
- The risk assessment/evaluation was heavily weighted to "heavy government control", which mean that innovative solutions were deemed "too risky".
- The lack of maturity in assessing the real cost of "traditional" solutions vs "as-a-Service" solutions. For example, if you take a starting position that the "infrastructure and hosting" costs to an agency are near zero (which is entirely fabricated), then you will never see the value in a subscription model for "as-a-Service" that includes all these factors in the cost base.

- The lack of maturity from many Government IT teams when it comes to the use of cloud services, coupled with the (real or perceived) risk that cloud services will make some IT roles redundant. There is a fascination/obsession from some IT groups with the need to try and dissect "as-a-Service" offerings so they can maintain undue control. An example would be the "need" to somehow have direct access to the database in a SaaS solution, when the SaaS solution cannot provide access without fundamentally breaking the proven delivery model.
- The conflict of interest that regularly exists in evaluation processes, where key decision makers, evaluators or influencers are asked to "fairly" evaluate solutions that would likely reduce the size of their team, reduce the amount of money attributed to the project, remove the ability to use project funding to also remediate/refurbish/replace broader/underpinning in-house infrastructure or capabilities, or simply reduce the size or scale of their IT empire.

Recent direct examples include:
- The use of on-premise solutions due to (unfounded and illogical) fears about the security or reliability of a cloud service vs the on premise solutions. In the most recent case, an on-premise solution was chosen for one of these reasons and has still not moved into the development phase, whereas the cloud solution would have been completed (i.e. in Production).
- The likelihood that an on-premise solution will be chosen over a cloud solution due to a lack of understanding about the difference between mature and methodical IT security and data sovereignty. Government should move away from the notion that a cloud solution is more "secure" just because it is hosted in Australia. This is fundamentally untrue from an IT security position, but very easy to use as a reason to perpetuate the current on-premise mindset.
- A recent tender where one bidder was deemed "unsuitable" due to the absence of a particular capability in their tender response, with the scope of the requirements later changing to exclude that specific capability from evaluation.
- Another recent example where, at the end of an arduous bespoke contract negotiation, the agency then put a hold on the procurement due to an unexpected "internal design review". At this point in the process, the vendor had invested more in the tender process and contract negotiation/creation than the ensuing contract would have been worth for the first 12-months. Once a procurement has been committed to and a successful contract has been negotiated, a decision to abandon or suspend the procurement should have the appropriate level of review.
- An over emphasis on service design leading to bespoke implementation of CRM, Data Model and Security vs a proven solution with over 1,000 customers globally. UX is important, but there appears to be a 90% focus on UX over functionality and security. A good user interface can readily be adapted/created using Web 2.0, fundamental functional and security elements cannot be retrofitted.
- A recent ERP Cloud procurement mandated the use of a "standard" Commonwealth contract with IP rights etc. This precluded a direct tender from Oracle (and others providing a commodity public cloud) even though the tender specifically asked to deal directly with cloud providers. The winning tenderer was providing their traditional on-premise software hosted as a managed service but lacking the characteristics of cloud as defined by NIST.

Snapshot of Procurement

> 3. In what areas of the Australian Government's ICT procurement are the biggest opportunities for innovative technologies?

In Oracle's view, Cloud services (IaaS, PaaS, SaaS) enable the biggest opportunity for innovation as they remove much of the cost and operational management burden associated with more "traditional" approaches to solution development. From this it flows that:

- To ensure that cloud services are evaluated fairly, there needs to be more transparency and consistency in the evaluation of the cost of "on-premise" solutions vs cloud solutions (i.e. the % of real cost for each component in an on-premise solution).
- Cloud services should be used to better refine business requirements *before* a formal scope is prepared for a procurement. This concept could be likened to "prototyping", enabling business/problem owners to better understand the "art of the possible" before a formal scope is prepared.
- There needs to be a financial commitment to cloud services by the agencies/Finance, not just a policy to consider them. This would encourage more investment by the cloud providers in resources and innovative solutions aligned with government programs/objectives.
- There should be a focus on shifting core platform services to cloud to reduce the ongoing cost of traditional delivery/operating models. An example is database – where there should be a focus on shifting from a database license/software support model to a database as a service model (essentially from Capex to Opex).
- Business process re-engineering. Too often the procurement is to replace the current system or paper-based system without sharing with industry enough context or insight that might allow step change.

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4. What are the key barriers to getting innovative technologies, such as cloud services, into the Australian Government?

Oracle sees the following barriers to innovation, particularly in relation to the take up of Cloud services:
- There appears to be a fundamental funding problem that is preventing the broader uptake of cloud services – most programs are funded with a heavy bias to Capex, whereas cloud services are reliant on an Opex bias.
- The alignment between (or lack of) security accreditation and procurement policy/practice is another barrier to the adoption of cloud services. Broad update of cloud services requires both procurement policy/practice and security accreditation to be aligned and closely linked, as one agenda cannot be satisfied without compromising the other.
- Along with the introduction of cloud service to government, there needs to be a plan to address the (very real) issue of human change management and career redevelopment within the public service. Many cloud services either threaten current/future job functions, and this in-turn creates a barrier to adopting these services. If there was a plan to address this concern with a real pathway to a new job/capability area, then this barrier may be removed or weakened.
- Decision makers for programs where cloud services are an appropriate solution may have conflicts. In some cases it might be appropriate to remove them from the decision/evaluation process where they are also incented/motivated to maintain an on-premise/in-house status quo. This is a barrier to the adoption of cloud services, where key decision makers or evaluators are also prone to "empire building".
- If Government wants a cloud first strategy, then it needs to ensure IT groups provide the "real" costs of an on-premise service to provide an accurate Value For Money assessment against cloud. To say that there are "no or little" infrastructure or people costs is false.
- The current "operating model" in government is a barrier to adoption of cloud services, where the IT groups often control all decisions around the choice of technology. Akin to the issue around decision makers in the point above, entire IT organisations may be threatened by cloud services as many of these technologies make their roles redundant (or at least very different). Added to this scenario is the heavy influence that non-Public Sector staff (i.e. contractors and consultants) have on the technology selection process, where these individuals or companies have a vested interest in maintaining certain technologies or operating models to ensure their own employment or engagement.
- The current ICT procurement process itself is a barrier to the adoption of innovative cloud services, primarily due to a heavy bias on risk in favour of "more direct control" (i.e. on-premise). This is often backed by a contractual position that tries to impose undue control over cloud services that, by nature, leverage some degree of multi-tenancy. Some of the key benefits of cloud services are efficient and

attractive cost/consumption models, "evergreen" delivery of ongoing innovation, and consistency; all of which are reliant on a very standardised delivery model. Ideally we need a contractual and procurement basis that works for both Government and Industry.

- For cloud to be more effective, more accepted and ultimately the tool of choice, it needs to be "OK to fail". Iterative "failure" or "fail fast" - methodical improvement of the solution in a live/beta style deployment – needs to be endorsed as a positive way of solving problems. As long as we are focused on "perfect and complete" as the benchmark of success, we will be stuck in the current rut of long, expensive and ultimately less effective programs.

> 5. What are the key barriers for SMEs and startups in the Australian Government's ICT procurement process?

The big challenge for SME's is their lack of scale (commercial, technical and legal), which makes their inclusion in major programs very risky (according to the current procurement process and practice). Cloud, and especially enterprise-grade cloud offered by major vendors such as Oracle, removes much of the risk for government and SME's.

We should be encouraging SME's to focus on "localising" cloud services from enterprise providers and providing complete managed services that are appropriate for Government. For example, a SME leveraging a SaaS application from Oracle could provide a complete, localised managed service with very low commercial/legal/technical risk, hence at a very competitive cost to government. This concept relies on holistic agreements between government and global vendors like Oracle, where a standard contract and agreed whole-of-government discounts would be ratified. There needs to be a focus on SME enablement in these agreements, not just a "better price and agreed contract" between the Government and the vendor.

Rules

> 6. Are the Australian Government's procurement rules easily accessible, easy to understand and navigate?

In most instances Oracle believes the rules are readily accessible. However there are many examples where the government staff creating or driving a traditional tender process don't understand them.

> 7. How could the Australian Government's procurement rules and processes be improved to make it easier to offer innovative solutions to government?

Oracle believes that the procurement rules and processes could be improved in the following areas:
- The rules applied need to be better aligned to the procurement sought; applying all rules for a small procurement forces the project to become more expensive and complex than it needs to be.
- It would be good for the procurement process to focus more on the solution than the rules.
- If an incumbent is doing a good job, they might be renewed without a tender and the effort can be spent where innovation might flourish.
- Finance might provide more guidance for agencies to help them assess value for money versus lowest price.

> 8. What rules, including any security requirements, limit the Australian Government's use of cloud services?

There are several areas in which the rules limit the Australian Government's takeup of Cloud services:
- The security requirements around IRAP are a blocker in a number of ways:

- o IRAP is an Australian-only process. Global companies generally want to deal with a smaller number of internationally aligned standards.
- o Don't mandate IRAP assessment to be in place for a solution based on cloud to be considered in a process. If the Cloud solution is chosen then add it to the IRAP assessment list. In many instances the delay in getting IRAP certification is as much due to lack of Government resources as it is for a vendor. This is even more onerous for small companies than large multinationals with the resources of Oracle.
- o Rather than have all vendors drive IRAP assessment at the same time, prioritise the assessments based on Government project load
- The current procurement approach is also limiting the potential takeup of Cloud:
  - o Vendors must agree to a single set of terms and conditions mandated by the Department of Finance. Those conditions are so heavily oriented towards the Government they preclude a large number of vendors from participating. Many small companies accept these terms because they feel they have no choice; this adds considerable risk to their businesses at a time when we should be encouraging innovation from SME's.
  - o In most other Governments that Oracle works with globally there is a level of acceptance that vendor standard terms will be the starting point for any Cloud agreement, particularly because it is the "standard" nature of the offering that allows the massive economies of scale available in providing a global solution locally..

Capabilities

> 9. What capabilities does the Australian Government need to be able to take full advantage of digital technologies, now and in the future?

The Government could do with enhancing its capabilities in the following areas:
- Embracing the notion that Cloud services are digital by default.
- Additional commercial and architectural capabilities to be smarter about buy vs build.
- Potentially employing more people from the private sector who are familiar with making decisions based on economies of scale, rather than looking for the "perfect" fit to their business requirements.

> 10. In your experience, what are the biggest capability gaps in Australian Government ICT procurement? How could the Government better develop or access the capability required?

Oracle has seen the following capability gaps in Australian Government ICT procurement:
- A lack of understanding of global market trends, including in Government.
- Architecture skills to decompose a business problem into parts best delivered by COTS and parts that require bespoke development.
- A lack of understanding of vendor capabilities resulting in selecting system integrators that will bespoke build much of the solution. A common tagline "…its not about the technology"… which actually means "trust us so we can build a bespoke solution to maximize the number of consultants we can embed to increase our profitability". In the modern ICT world, there should no longer be massive bespoke implementations which come with high risk and fail regularly.
- Commercial acumen in dealing with ICT procurement.

The Government could better develop/access the required capability by:
- Employing staff with Private sector experience in the Procurement function.

- When using external "above the line" consultants, ensure that their terms of reference are very clear in relation to the goals of ICT Procurement. That is, to promote innovation and re-use, and embrace advances in technology for the betterment of all Australian citizens.

> 11. In your experience, has the governance approach used by agencies to manage large ICT projects enabled or inhibited the success of those projects?

We have generally seen two ends of the spectrum:
- At one end, the Governance is very heavy and "old world" in terms of its approach to managing projects. A change in thinking needs to occur in the way we try to solve business problems or meet new policy agendas – "waterfall" thinking is a big barrier to innovation. There needs to be a more iterative approach to solving big or complex problems, for example with cloud services offering the ability to solve "self-contained" problems quickly and cost effectively while still aligning to a broader (and larger/more complex) problem.
- At the other end of the spectrum, many relatively small projects that are often driven by the business (particularly in the Cloud world) suffer from a complete lack of Governance.
- It would be good to promote increased adoption of modern approaches to project delivery and deployment, taking advantage of advances in agile development while still having discipline in the delivery model. Oracle has thousands of customers globally who have quickly gained outcomes based on a combination of "out of the box" Cloud offerings augmented by short, sharp localisation.

Culture

> 12. How does culture influence the Australian Government's approach to ICT procurement? What sort of culture change would better support innovative ICT services and get more SME and startups working with the Government?

The culture within ICT Procurement has a major influence on the way procurements are established, run and completed. At present, in many procurement functions, particularly at the WOG level there is an almost adversarial approach. Mature customers recognise that the vendors have as much at stake in the successful delivery of an outcome as the Government.

Some culture change which Oracle believes would assist the Government is:
- Recognising that self-interest is not unique to vendors. Systems integrators and consultants may influence procurement decisions in favour of keeping a legacy IT approach in place – for fear of losing their relevance.
- Increasing the respect for vendors, both large and small. While nobody is perfect, it is a rare vendor who does not care about the outcome for the customer.
- Augmenting the skills base in ICT Procurement with staff who have private sector experience and the accompanying commercial acumen.

> 13. What experience have you had with 'partnering' with the Australian Government and what is required to do it better?

Oracle has had a mixed level of success with "partnering" with the Government. Generally the larger agencies at least attempt to do things with a large vendor like Oracle in the spirit of partnership. However, often Government agencies are unsure as to how best to approach this.

We have had some good experiences in this regard, generally with the larger agencies. For example, one agency trusted Oracle to behave as partner (ie risked not having an adversarial contract) and senior Oracle executives understood the commitment. The result was a highly successful delivery of outcomes based on a modern Oracle technology stack.

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