

AUCLOUD

Response to New Cloud Marketplace RFI

Discussion Paper

NOVEMBER 2019



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1. Executive Summary

Thank you for the opportunity to respond to the New Cloud Marketplace (CMP) RFI Discussion Paper released by the DTA in October 2019. Our feedback builds on the response made by AUCloud (then Assured Digital Group (Australia)) to the Report of the Prime Minister's ICT Procurement Taskforce, which was published in May 2017, and the DTA Procurement Framework published in April 2018.

For reasons outlined in this paper, we strongly believe the views expressed in this Response reflect recent, learned experience of what it takes to build and operate efficient and competitive procurement arrangements that tangibly benefits both Buyers and Sellers in the market.

AUCloud strongly supports the adoption by the DTA of the ISO 17788 standard related to Cloud Services. We strongly support the articulated intention to deliver a competitive marketplace (and hence market driven) procurement environment.

However, it is also our strong view that because the proposed New Cloud Marketplace paper continues to conflate the concepts of marketplace and panel, the stated aims of proposed new arrangements are fundamentally undermined.

A marketplace and (separately) a panel are completely different procurement constructs that deliver fundamentally different types of 'vendor markets' and procurement outcomes. The notion of a marketplace panel sourcing arrangement is a contradiction in terms.

While a marketplace is by default, open and transparent with products and services easily comparable and accessible by business owners making procurement decisions, a panel creates a restrictive selection of possible suppliers. While the former is premised on transparency and is naturally conducive to competition, the latter explicitly limits competition because it is not transparent.

In a true marketplace scenario, the resource-intensive and arbitrary nature of the proposed two-phased process is redundant. In a properly formed marketplace, the market itself sifts through who is more competitive (having regard to a range of variables) much more effectively and transparently (particularly the case in a commodity-based market).

We also identify how standardisation of skill descriptions and hence rates can be better achieved through application of the Skills for the Information Age (SFIA) framework; also consistent with delivering transparent and competitive procurement outcomes.

Finally, while we support the use of a Digital Tendering Platform, it is imperative that this platform is fully functional and, not as is proposed, released with the limited capability proposed.

Full details of our position are outlined in the body of this response. A summary of our recommendation is included below.

Recommendations:

To achieve the aims and outcomes identified by the DTA in the New Cloud Marketplace RFI Discussion Paper it is recommended that:

1. A true marketplace procurement model, as outlined in this paper (by AUCloud) is designed and implemented. It is further recommended that any notion of a panel arrangement is abandoned – both in terminology and in proposed approach.

This approach includes:

- reliance on ISO 17788 to clearly articulate cloud capability types and service categories as the basis for services available through the Marketplace;
- encouraging competition through embracing transparency of information as the key lever that will drive best value and probity;
- mandating that all suppliers provide a range of information on their services that is made public to all buyers and their competitors;
- mandating that all contracts must be reported with a range of information on size, ownership, performance, penalty payments etc;

- a light touch pre-qualification process (as outlined in this response);
- introduction of a fully transparent procurement reporting system that includes both Buyer and Supplier side metrics; and
- adoption of continual improvement strategies such as the Mystery Shopper approach used by the UK Government.

Importantly it is critical to ignore misguided claims from both the supplier and buyer community that public availability of the information we identify above (on both the supplier and buyer side) is “commercial in confidence”. This is simply a euphemism for price discrimination and gaming.

2. Adoption of the global ***Skills for the Information Age*** (SFIA) framework as the basis for standardising the purchase of skills in the Marketplace. This will ensure standardised benchmarking of skills and allow buyers to easily compare like for like – including relative to cost.
3. Availability of a fully functional Digital Tendering platform to support the new CMP from Day One.
4. Government Buyers are discouraged from using bespoke procurement arrangements outside of the Marketplace for commodity-based cloud services.

2. Introduction

Thank you for the opportunity to respond to the New Cloud Marketplace (CMP) RFI Discussion Paper. Many of the points we make in this response reiterate feedback we have provided to similar requests for advice/feedback regarding ICT related procurement. This includes formal written responses to consultation papers in 2017 and 2018 as well as additional in person consultation forums. We acknowledge the progress that has been made to modernise the language and 'intent' of the procurement framework. Notwithstanding this, we believe that the position outlined in the current Discussion Paper continues to conflate the concepts of marketplace and panel in the context of procurement framework options. In our view, the resulting confusion undermines achievement of the aims (as articulated in the Discussion Paper) of the proposed new CMP.

2.1 Context for AUCloud Comments

By way of background AUCloud is a sovereign cloud Infrastructure-as-a-Service (IaaS) provider. We are exclusively focussed on meeting the needs of the Australian Government and Critical National Industry (CNI) communities. This includes Federal, State and Local Governments and CNI organisations such as telecommunications, electricity, energy, financial services and similar utility providers.

We are independently IRAP assessed to the PROTECTED level controls of the Australian Signals Directorate (ASD) Information Security Manual (ISM). We provide two independent environments: an OFFICIAL Data Community Environment (ODCE) and a PROTECTED Data Community Environment (PDCE) that meet or exceed these controls.

The strong position we outline in this response is founded on the following credentials.

1. We are an Australian owned and managed ICT start-up with first-hand, current, tangible experience in understanding what drives investors to take investment decisions that can significantly increase the supply base of potential providers to government (or not).
2. We have proven success through our experiences (good and bad) of the UK Government's approaches to competitive procurement. We understand what motivates competitive behaviour, and in fact, the checks and balances that foster a healthy, transparent marketplace that benefits both Government buyers and industry.
3. As a team we have considerable personal experience of Australian Federal Government public procurement from the buyer side.
4. Importantly - we are Australian tax paying citizens who on a personal level want to see efficient and effective services delivered that benefit all communities across Australia and underpin a healthy economy.

2.2 Structure

Our response to the current invitation is in three parts:

- a brief overview of the concept of the marketplace, specifically its relevance in the context of the drivers and aims identified in the paper for a New Cloud Marketplace;
- specific responses to issues raised in the paper, in the format requested;
- a summary of recommendations.

3. Response

This response to the DTA Discussion Paper is based on learned experience in the UK. While not advocating the need to replicate the UK procurement model directly in Australia, the fact that the UK approach is premised on proven economic, business and competitive behavioural models that go to the core of achieving the aims as stated by the DTA Paper, demands more serious consideration than has been given to date.

3.1 A Marketplace – not a Panel

The Discussion Paper notes (amongst other things) that drivers for the proposed new CMP include:

- the expansion and diversity of cloud-based service types;
- the emergence of more SMEs offering a range of cloud-based services;
- new cloud focussed vendor licensing and reseller channel models; and
- the shift to ‘marketplace’ digital sourcing arrangements – offering more choice, flexibility and easier vendor onboarding.

In noting the intention to (therefore) create a ‘new Cloud Marketplace (CMP), the Paper makes clear that the aim of the new CMP is to achieve value-for-money outcomes for government agencies through, for example:

- having sourcing arrangements that are *‘flexible’* to meet industry and technology advance;
- provide a broader *range of (cloud) service offerings*;
- *simplify* current buying processes;
- improve participation by SMEs; and importantly
- provide a *‘modern, flexible, competitive and accessible Cloud Offerings marketplace to Buyers’*.

AUCloud applauds all the above – both in terms of understanding the drivers to change current arrangements and the concrete, practical outcomes that should be achieved as a result of those changes.

Our concern however, is that these outcomes cannot be effectively achieved given the Paper’s conflation of the concept of a marketplace with a panel – “*We have decided to approach the market to create a new Cloud Marketplace (CMP) panel sourcing arrangement . . .*”

The reality is you either have a marketplace or a panel. They are fundamentally different procurement constructs that deliver fundamentally different types of ‘vendor markets’ and procurement outcomes. The notion of a marketplace panel sourcing arrangement is a contradiction in terms.

A **marketplace** (including one that is ‘limited’ by invitation) is, by default, open and transparent with products and services easily comparable and accessible by business owners making their procurement decisions. It is naturally conducive to competition because it is underpinned by the principle of transparency; suppliers are required (or worse case, given the opportunity) to provide a range of information on their services (price, service descriptions, service levels etc) that is made public to all buyers and the broader marketplace in which they are operating.

Transparency ensures a level playing field for all suppliers. Additionally (and importantly), suppliers have the confidence to make (multi-million-dollar) investment decisions in hardware, development, people and market engagement, by reducing the risks of incumbent behaviours that continue to game traditional (current) procurement process. Transparency is further augmented by rules that reduce buyer/supplier gaming; for example, insisting that any price reduction contracted with one customer is reflected for all other current and future customers. This is particularly relevant to ensuring more SMEs can access and competitively participate in the market.

Transparency is also required from buyers. This includes feedback on contracts awarded (agency identity, supplier identity, project identity, buyer project owner, monthly revenues, machine hours, gigabyte months, consultancy hours, etc), to the value of any service credit payments or price and price changes.

In summary - the more data on supplier services, pricing, service credit regimes, etc. that is made available to the whole supplier community, the **more competitive suppliers will be on both price and service**.

Economics 101 highlights the importance of perfect information as a key feature of a perfect market.

The more data on buyer behaviour on contract awards, spend levels, service requirements etc, the more **buyers will be held to account on their procurement decisions**. This also facilitates business owners (buyers) making more effective decisions, whilst also held to account on probity through the visibility of their decisions.

Key to this model working effectively is easy comparability of product and service offerings. Buyers need to understand and compare like for like features, including costs. Because cloud services are standardised, both in terms of their technical features and underpinning commercial terms, they are well suited to a marketplace procurement model. This is reinforced by the as-a-Service nature of cloud services which, from the perspective of the supplier, are a standardised service in all respects; whilst the service is configurable it is **not** adjustable to each individual customer's needs. This is core to enabling suppliers to deliver a scale as-a-Service offering at a Best Value price point. This definitional element of cloud services, which is core to cost efficiency is clearly outlined in the ISO/IEC 17788 provided by the DTA with the Discussion Paper.

Panel procurement arrangements, on the other hand, are **not fit for purpose** in procuring standardised, commodity-based cloud services. They create a restrictive selection of possible suppliers (deemed worthy by a subjective procurement process), which explicitly limits competition. Further, they are not transparent and therefore not conducive to encouraging investment to support suppliers or indeed, drive optimal competition. They do not provide an obvious level playing field for SMEs, who are either unwilling or unable to risk the entry costs of the procurement theatre and do not provide the inherent flexibility (responsiveness to competitive price movements, ability to easily move between suppliers for commodity services etc) that a modern purchaser is **entitled to have access to**.

For these reasons AUCloud emphasises that the DTA needs to clarify its commitment to a procurement marketplace – and not simply the continuation of existing panel arrangements by another name.

3.2 Response

The comments below, in response to specific sections of the Discussion Paper, are premised on this fundamental differentiation between a marketplace and panel procurement framework as they relate to the stated aims and outcomes of the proposed new CMP.

Section/Paragraph Reference	Identified Issue, Item to Note etc	Comment, proposed solution or alternative wording
5.1 Cloud Services	AUCloud fully supports the adoption of ISO 17788 for the purpose of a proposed new CMP.	<p>Adoption of the ISO 17788 standard provides a critical underpinning to the competitive, transparent, flexible and accessible procurement model envisaged by DTA.</p> <p>It provides the means by which product and service offerings can be defined, described and compared in a standard way.</p> <p>It recognises the distinctive features of cloud services in terms of its commoditised, on-demand and scalable nature.</p> <p>It accounts for and accommodates emerging new cloud services.</p>
5.1 (iii) Service Domain	<p>The Service Domain list is superfluous.</p> <p>With ISO 17788 clearly articulating cloud capability types and service categories the purpose of Service Domains is unclear and unnecessary. It is not standards-</p>	<p>The additional level of differentiation is not required. It makes more sense for buyers, in a true marketplace environment, to simply understand the as-a-service capability it requires and go to the market accordingly.</p> <p>It is recommended that the list of Service Domains is removed.</p>

Section/Paragraph Reference	Identified Issue, Item to Note etc	Comment, proposed solution or alternative wording
	<p>based differentiation of services; it uses a range of outdated terminology; and adds additional process, complexity and confusion.</p> <p>The buyer is purchasing a commodity based as-a-service offering. Almost all the items listed under Service Domains are relevant to all the as-a-service Capability Types.</p> <p>Arguably the list is contrived, to 'manage' the market and artificially categorise suppliers, limiting the scope of cloud services they can provide. This undermines the concept and operation of a true marketplace.</p>	.
5.1 (v)	List of additional attributes to describe the features of each cloud service.	It is crucial that these attributes are similarly standardised from the outset.
5.2 Rate Card for Consultants	<p>AUCloud applauds the standardisation of Job Titles.</p> <p>However, we believe there are existing standardised ways to do this more effectively and transparently based on a more objective skills-based approach.</p>	<p>We strongly recommend use of the global <i>Skills For the Information Age</i> (SFIA) framework.</p> <p>This is well understood globally as a reliable (and evidence based) framework for defining and comparing hourly rates based on clear skill attribution.</p> <p>This approach ensures standardised benchmarking of skills and allows buyers to easily compare like for like – including relative to cost. This is a critical element to achieving the level of transparency and competitiveness desired.</p> <p>While we are aware that the DTA already refers to the SFIA framework in the context of determining rates, we believe it should be a requirement that the SFIA is used to describe the skill sets required and applied by Suppliers and that they are priced accordingly.</p>
6.1 Approach Overview	<p>We dispute the need for the two phased process proposed. If the marketplace is framed correctly from the outset, the two phased process is redundant.</p> <p>This proposed two phased approach puts process before outcomes and in doing so is completely at odds with the aims and outcomes articulated by the DTA in the Discussion Paper.</p>	<p>The DTA needs to clarify what it wants – a marketplace or a panel.</p> <p>The notion of a marketplace does not discount some process of pre-qualification.</p> <p>This should be a baseline set of questions (possibly sourced from existing publicly available information, e.g. ASIC, etc) directly relevant to the provision of the likely services to be supplied.</p>

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		<p>This pre-qualification step would significantly reduce supplier costs and increase their willingness to engage with government – particularly SMEs.</p> <p>On the basis that the Marketplace is framed by ISO 17788, the listing of service offerings, prices, SLAs etc is straight forward. The approach we propose limits the ability of the process itself to determine the quality of service or value for money. These decisions are (rightly) at the discretion of the individual buyer, determined having regard to the impact of the service relative to their specific service delivery requirement.</p>
6.2 Part 1	<p>This section reverts back to old language and concepts, i.e., establishment of a panel – an arrangement of 'qualified sellers' assessed as capable of providing Cloud Offerings.</p> <p>This section implies that there is no marketplace but rather a panel of providers based on selection (we assume by the DTA) through a 'selection' process. How this is done is not clear (i.e. transparent) and begs the question of how competitive the outcome will be.</p> <p>As we note below – who will and how will they determine the technical merits of each cloud offering and decide if it represents 'value for money'? Arguably such an opaque process itself would breach existing procurement rules and is not open to challenge.</p> <p>In a true marketplace, the marketplace itself decides this and does it much more effectively and transparently.</p>	<p>See comments above.</p> <p>The two-stage process should be:</p> <ul style="list-style-type: none"> • A simple pre-qualification process as noted above: • Opening of the marketplace according to the Standard and policies identified.
6.2 Part 2 – Addition of Cloud Offerings from Sellers	<p>Our major concern with the Part 2 process is that it again imposes an unnecessary and artificial screening or filtering process that is not transparent and arguably arbitrary.</p> <p>Who and how will they determine the technical merits of each cloud offering and decide if it represents 'value for money'?</p> <p>As noted above, in a properly formed marketplace, the</p>	<p>We recommend a simple pre-qualification and establishment of marketplace as outlined above; clearly based on standard definitions, descriptions, cloud category types and transparency of commercial and contractual arrangements.</p>

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	marketplace itself decides this much more effectively and transparently.	
6.4 Use of Digital Tendering Platform	<p>Establishment of a Digital Tendering Platform is welcomed. However, it is not satisfactory that the system only supports one user at a time.</p> <p>In an environment where technology solutions are mature, sophisticated and easy to build quickly, the limited functionality of the proposed system is not acceptable. This is very disappointing given the role of the DTA to promote best practice across Australian public services.</p> <p>It fails to understand or respect the commercial and business needs of suppliers. It disrespects the time of suppliers and is at odds with the stated intention of making procurement more streamlined and accessible.</p>	A functional platform must be available to support multiple users.
7.2 Proposed Option: Short Form Agreement with Seller Rating	<p>We note the intent to introduce a new Short-form Agreement. We understand the intent to make the Agreement easy to access and use. In our experience in other government procurement scenarios, the ability to get an effective short form agreement lies as much in the collaborative work with industry to agree the scope of the Agreement and key terms – than simply making it easy to read.</p>	<p>A standardised contract and short form Agreement is essential and should be relatively easy to execute given the requirement for standardised services.</p> <p>However, we strongly recommend the DTA undertake engagement with industry to both get buy in to the process and to ensure basic terms are agreed and/or appropriately negotiated.</p> <p>It is also important to ensure the Agreement and broader contract terms are legally applicable to as many government agencies as possible, from the largest agencies to the smallest and avoid opportunities for agency specific bespoke derogations for their own purpose.</p> <p>To reiterate – it is important that suppliers can supply under standardised terms; if not suppliers are unable to deliver standardised as-a-Service offerings and deliver the economies of scale cost savings that can be driven to the user.</p>
8.1 Cooperative Procurement Arrangement	It is important that the Marketplace is constructed in such a way that it is clearly advantageous for Buyers to use.	Notwithstanding the CPRs, new CMP arrangements need to be structured to prevent ongoing splintering of procurement arrangements across government.

Section/Paragraph Reference	Identified Issue, Item to Note etc	Comment, proposed solution or alternative wording
	<p>It continues to be a major concern of Suppliers that Government Agencies can effectively subvert the standardisation of procurement processes, especially where services such as cloud-as-a-service offerings are standardised, commodity-based offerings. It undermines all the publicly claimed objectives of procurement reform as these relate to:</p> <ul style="list-style-type: none"> • modernising government reform; • simplifying and making the process more cost effective for suppliers and buyers; and • transparency of the procurement process. 	
8.3 Cost Recovery	<p>In a true marketplace scenario cost recovery would be minimal. Once the system is established it would virtually operate itself.</p>	<p>Firstly, we would point out that in general, other jurisdictions do not charge Suppliers to participate in their procurement arrangements. We assume cost recovery requirements are based on the resource effort to undertake the assessments identified in the proposed two - phased process. As already indicated, this can be avoided by the light touch pre-qualification process discussed in this response, combined with a true marketplace framework driven completely by standardisation and transparency.</p>

3.2 What's Missing - Reporting and Continual Improvement

As noted above a core principle of an effective marketplace is full transparency. This includes what opportunities are emerging from which Agency requiring what as-a-Service service, through to who is winning and delivering what services with whom.

Aside from the deep vein of open data available for both buyers and suppliers to analyse pricing, migration rates, trends, etc, this provides a real and visible check for public probity. For example – it causes buyers to consider why they are awarding services to providers that have significantly higher rates – whether they be for commodity items or human resources. It also helps unsuccessful suppliers adjust their pricing in order to be competitive.

A related but often missed value of this public disclosure from a supplier perspective is the ability to reference success based on this public ledger. Government customers are notoriously reluctant to provide references or confirmation that a supplier is providing services to them - let alone that they are providing a good service. An open, transparent reporting system circumvents this and provides successful suppliers with the ability not only to reference the actual supply but also to attach a scale and duration to their service which can assist their future success. This can be a critical form of oxygen for SME or new entrant organisations.

A further progression of reporting and on-going contract management is the development of an “Airbnb” style customer/provider experience rating that is visible to potential customers and suppliers. There are benefits and risks around such a scheme, however, it could be developed to secure feedback from different actors

across the initial procurement and on-going contract management process such that appropriate weighting was given to short, medium and long-term engagements.

Two additional aspects for continual improvement should also be considered.

- The on-going improvement of the overall procurement approach within the wider digital transformation agenda and the success at meeting the overarching objective of a dynamic ecosystem.

An area that has proved both effective in the UK is the implementation of a ‘Mystery Shopper’ service with anonymous reporting. This has permitted suppliers, especially SMEs, to call out buyer behaviour that has not appeared to have aligned with the core principles of the Digital Marketplace, often encouraged by their larger incumbent suppliers.

- The need to scope key metrics to support individual buyers and suppliers to improve their contract performance during any given contract period.

Failure to incorporate appropriate reporting and continual improvement approaches will fundamentally undermine any real attempt for procurement reform.

3.3 Summary of Recommendations

To achieve the aims and outcomes identified by the DTA in the New Cloud Marketplace RFI Discussion Paper it is recommended that:

1. A true marketplace procurement model, as outlined in this paper (by AUCloud) is designed and implemented. It is further recommended that any notion of a panel arrangement is abandoned – both in terminology and in proposed approach.

This approach includes:

- reliance on ISO 17788 to clearly articulate cloud capability types and service categories as the basis for services available through the Marketplace;
- encouraging competition through embracing transparency of information as the key lever that will drive best value and probity;
- mandating that all suppliers provide a range of information on their services that is made public to all buyers and their competitors;
- mandating that all contracts must be reported with a range of information on size, ownership, performance, penalty payments etc;
- a light touch pre-qualification process (as outlined in this response);
- introduction of a fully transparent procurement reporting system that includes both Buyer and Supplier side metrics; and
- adoption of continual improvement strategies such as the Mystery Shopper approach used by the UK Government.

Importantly it is critical to ignore misguided claims from both the supplier and buyer community that public availability of the information we identify above (on both the supplier and buyer side) is “commercial in confidence”. This is simply a euphemism for price discrimination and gaming.

2. Adoption of the global **Skills for the Information Age** (SFIA) framework as the basis for standardising the purchase of skills in the Marketplace. This will ensure standardised benchmarking of skills and allow buyers to easily compare like for like – including relative to cost.
3. Availability of a fully functional Digital Tendering platform to support the new CMP from Day One.
4. Government Buyers are discouraged from using bespoke procurement arrangements outside of the Marketplace for commodity-based cloud services.