

From:
To: [Committee_IC \(REPS\)](#)
Cc:
Subject: Re: Pricing of software etc inquiry
Date: Wednesday, 15 August 2012 2:21:28 PM
Attachments: [IT Pricing Review.docx](#)

Peter,

This submission is somewhat later than you indicated as a comfortable time line for you.

I am hoping that you will still help the Committee's deliberations.

Please accept it on behalf of Dr Ian Tebbett, Chief Information Officer, Monash University.

Thank you,
Michelle
Michelle King

House Standing Committee on Infrastructure and Communications

Inquiry into IT Pricing

Introduction

In the twenty-first century, Information Technology (IT) is core to the operations of Australian Universities and the productivity in the Australian economy generally.¹ For institutions like Monash University, and the individuals that populate them, IT is of increasing importance to daily operations. Where software and hardware products cost more in Australia than comparator economies, institutional and household budgets face increased pressures. This results in expenditure being diverted from other high-value activities that impact the staff and student experience, and ultimately the educational and research outcomes we could otherwise achieve. For our student population, these prices create significant opportunity costs in household budgets, and as a consequence, the opportunity to engage with studies.

Monash University welcomes this Inquiry as an opportunity to share our particular observations about the differences in IT pricing between Australia and the United Kingdom. This submission relates to terms of reference A, B, C, D, and E outlining our views on whether price differentials exist, the scale of the differentials, the reasons they exist, the impacts of these differentials and what might be done to mitigate these impacts.

Software price differentials

Nothing in the computer world works without software of some form, be it operating systems, middleware or a business application.

Software costs are incurred under many complex arrangements, including:

- a) an initial licence (purchase) cost followed by annual payments for “maintenance”;
- b) periodic charges for usage; and
- c) bundled with other services such as infrastructure, hosting, operation, or business processing.

Many licence agreements under a) and b) are based on customer business volumes (eg student numbers in the Education sector). This means that effectively vendors are profiting directly from customers’ business growth rather like a tax. Agreements, however, generally do not permit reduction in payments, thus creating an unfair “ratchet tax” burden on organisations (which are often unable to negotiate on an equal basis with a major software vendor).

The emergence of cloud approaches has increased the range of options available to customers and at the same time created new opportunities for vendors to achieve step changes in their value proposition. It would be naïve not to recognise that although cloud solutions may reduce headline

¹ Department of Broadband, Communications and Digital Economy, Submission 55. Australian Industry Group, Submission 56.

costs to the customer, vendors would not pursue the approach if it did not improve their returns (creating artificially high costs to customer).

Monash spends approximately 10% of its IT operations budget on the software category, with some 100 suppliers. Significant areas are desktop operating systems and office applications, specialist business applications (for research and teaching purposes), student administration systems (sector specific) and general administrations systems (eg Finance, HR).

Software costs have and continue to grow at a greater rate than general inflation.

There is a wide range of vendor approaches to pricing with very little transparency of real costs. The last decade has seen significant consolidation in the software sector, mostly through major players buying out mid-range providers. This pace has accelerated through the Global Financial Crisis and continues today. The multi-billion dollar valuations associated with these purchases are a good indicator of the profit levels achievable in this sector.

Traditionally, some vendors have seen the Higher Education sector as one which should benefit from lower pricing of software, especially that visible to students, in the belief that the user will be well disposed to the product and/or the vendor in their later careers. Unfortunately, there is a lack of transparency of many software commercial matters which means that it is not possible to verify supposed "discounts". Many vendors publish a "list" price, but it is a rare that a competitive tender (in any sector) does not result in a lower price.

There is clear anecdotal evidence within the Australian Higher Education sector that software costs are higher in Australia than in comparator institutions in like Higher Education sectors.

Hardware price differentials

Monash spends approximately \$10m on hardware in a typical year. This expenditure covers high-capacity specialist hardware for computationally intensive research (eResearch), servers, desktops, laptops and mobile handsets, data storage devices, network equipment, audio-visual equipment.

We have carried out some sample price assessment with a UK comparator university and concluded that, on average and on current exchange rates and eliminating sales tax difference, our underlying unit costs for hardware are 20-30% higher.

Why these price differentials exist

Other submissions to the Inquiry provide insights into the particular features of the Australian market and how these impact on pricing.² The recent work of the Productivity Commission investigating the Australian retail sector sheds light on these questions as well as making important observations about the limited value of 'snapshot' comparisons.³ Monash does not intend to add to this debate.

² Department of Broadband, Communications and Digital Economy, Submission 55. Australian Industry Group, Submission 56, Australian Information Industry Association, Submission 73, Australian Communications Consumer Action Network, Submission 74.

³ Productivity Commission (2011), *Economic Structure and Performance of the Australian Retail Industry*, Report no. 56.

From the perspective of the individual student or indeed individual university, these differentials are created by well-known commercial forces. These forces add up to asymmetry of information and bargaining power between the vendor and the consumer.

Impacts

Our analysis shows that IT costs generally are much higher in Australia than in those parts of the world with similar Higher Education models. In the UK, universities typically spend 4-5% of the income on IT whereas in Australia the proportion (to deliver similar levels of functionality) is 7-9%.

Like all public institutions, Australian Universities serve the public good with finite resources. The public and private funding sources that support Australian Higher Education are constrained and subject to the normal fluctuations of government fiscal, and market, forces. IT investment is an increasingly important element in the overall budget of universities and the students who populate them. Where we pay more for IT hardware and software, resources are diverted from delivering further IT supported enhancements to support research and education or from other core aspects of the University's operations.

The students manage finite and often limited resources whilst studying. At Monash, approximately 12% of the domestic undergraduate student population come from a low socio-economic background. For this cohort, meeting living and study-related costs can be very challenging. Some of the most exciting changes to pedagogical approaches centre on the electronic delivery of content and collaboration environments. In light of these changes, the need for students to have easy access to contemporary IT tools increases, as do the attendant financial challenges.

Various submissions to the Inquiry have drawn attention to the impacts of IT pricing differentials on disadvantaged Australians.⁴ The Australian Council of Social Services recently published studies that show how low income Australians on income support can miss out on essential goods and services due to financial constraints.⁵ As access to electronic communications tools become increasingly essential to operate in the modern economy, those who cannot afford such access can be denied participation.

The proportion of students affected by difficulty in paying for communications costs is higher than one might imagine, with 43% of respondents to a the recent National Union of Students survey stated that they struggle to pay communications costs from their normal income.⁶ Where an individual is seeking the social mobility and future financial security that is bolstered by Higher Education, these impacts can add to the difficulty of that journey. Unfortunately for some talented prospective students from low socio-economic backgrounds, the costs of IT in Australia will add to their decision not to take up Higher Education.

Mitigation

Australian students are very fortunate to have a low-cost loan scheme available to fund the costs of Higher Education. Direct support with living and study expenses is also available to some, via various

⁴ Department of Broadband, Communications and Digital Economy, Submission 55.

⁵ ACOSS, (2012), *Who is missing out? Material deprivation and income support payments*, ACOSS Paper 187, http://acoss.org.au/images/uploads/Missing_Out_2012_ACOSS.pdf p. 13.

⁶ Monnox, Chris (2011), *Student Income and Welfare Report 2011*, National Union of Students, Canberra p. 4.

income support schemes. The vast majority of students however must fund their own IT costs whilst studying. Monash has advocated reforms to the Commonwealth Higher Education Loan Programme (HELP) for domestic students to allow for IT costs to also be deferred as part of the relevant loan for some years now. Such a policy reform would provide relief to both low socio-economic background students and the general population seeking to cover the IT costs associated with tertiary study.

If the Committee wishes to hear more about our understanding of the price differentials between Australian and comparator international universities, the impacts and potential mitigation of them, Monash would be happy to provide any further and better particulars where it is feasible to do so.