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Increasing Demand for Demand Management

During the past five years, the topics of service level agreements, the business value of information technology, and outsourcing governance have converged into a practical solution call Demand Management. Demand management is the discipline of prioritizing investments, managing spending, implementing change, and overseeing the realization of results.

While demand management functions were previously ad hoc processes subject to management discretion, leading-edge organizations have a systematic process and defined responsibilities in demand management. The adoption of global services for IT and increasingly BPO mandates that responsible companies aggressively implement and operate demand management.

Key Topics Covered

- Leading practices in establishing demand management functions
- Processes and critical success factors for demand management
- Metrics of success and monitoring software tools available
- Viewing demand management as an investment rather than cost

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Introduction

The challenge of establishing priorities and justifying investment decisions for IT is as old as technology itself. The introduction of outsourcing as a dimension has further complicated the equation. In today's global economy, managing the ongoing and changing requirements of business units is increasingly complex.

IT spending and project prioritization almost always align with a company's financial structure. If budget resides centrally within the IT organization, then business units usually become frustrated with the priorities chosen. If budget is decentralized and managed within the business units, then company usually finds "shadow" IT investments. The lack of a central coordinating and governing structure has been the source of discussion for years.

Many terms and techniques have been used to manage the relationship between business units and IT organizations, including service level agreements (SLAs), services catalogs, relationship-based management (RBM), and IT governance boards. While each of these items serves a specific purpose, none addresses the core problem of demand management.

The emerging discipline of demand management shows great promise as it leverages components of previous ideas and aggregates them into a process (or methodology) to systematically and consistently evaluate and reevaluate investment priorities. Demand management also provides a structured approach that integrates well with requirements to manage outsourcing providers and govern the ongoing services provided.

As demand management establishes consistent methods, software tools are able to collect data and aggregate information to support management decisions. While management discipline is still required to ensure the quality of business proposals, consistent data models lead teams toward common analytical approaches. Success in demand management is significantly improved through consistency in methods and analytics.

Defining the Process

Demand management must become a standard operational process. As shown in Figure 1, that process includes both inputs and outputs. It operates within parameters called "guides" and is supported by other company activities called "enablers."

Inputs

The inputs for demand management may seem obvious or trivial, but they are the most controversial and problematic. For example, proposals or business cases that are inconsistently prepared or based on different assumptions can make comparative analysis nearly impossible. When proposals originate from different geographies, business units, or have different priorities, governing committees are faced with the nearly impossible task of prioritizing.

Proposals, business models, investments, returns, profits, or cost avoidance assumptions should use consistent approaches (e.g., timeframes or interest). The same rules should apply to smaller projects or services that arrive as inputs, including (1) maintenance or "break / fix" services, and (2) desktop requests such as IMACs (installs, moves, adds, or changes).

Another input commonly used is an analytical hierarchical process (AHP) to help prioritize projects and activities efficiently. This model allows teams to quickly categorize projects with obvious priorities and escalate any uncertainty.

Client-facing organizations should also proactively conduct "root-cause analysis" of incoming requests. While the help desk will formally assess calls, team members should quickly escalate "how-to" questions that should have been resolved by training and are consuming inordinate time.

Outputs

The primary output of the demand management process is a prioritized set of projects along with a timeline for implementation. The IT organization will assume that ongoing changes will be required, but the plan allows it to manage several issues.

1. **Set expectations with business units about the timeline and the costs required for the project.** Many business managers believe that the IT organization is "on demand" for projects and setting client expectations is critical.
2. **Control IT costs by anticipating demand, proactively hiring talent and investing in emerging technologies.** Planning always lowers costs. Greater insight by the IT organization into future demand benefits the organization by lowering cost.
3. **Create technology standards for emerging solutions.** Each new brand of server, database product, operating system, or major application requires staffing and management by the IT organization. If the IT group is involved in the decision, it can help guide solutions toward standards that lower the ongoing cost of support. A Fortune 100 neoIT client recently mandated that it would use SAP without any modifications (i.e., out of the box) because the changes and maintenance were incurring excessive company expenses.
4. **Contract with providers to augment internal resources.** Giving the IT organization a longer window into pending projects allows it to contract with providers for services that range from staff augmentation to complete outsourcing. Surprises always cost more.

Guides

The demand management process should be governed by corporate policies and requirements. Guides can be as broad and far-reaching as company polices for human resources or finance policies for capital expenditures. In fact, policies that freeze hiring are often a catalyst for global services agreements as a way to scale capability without incurring company headcount.

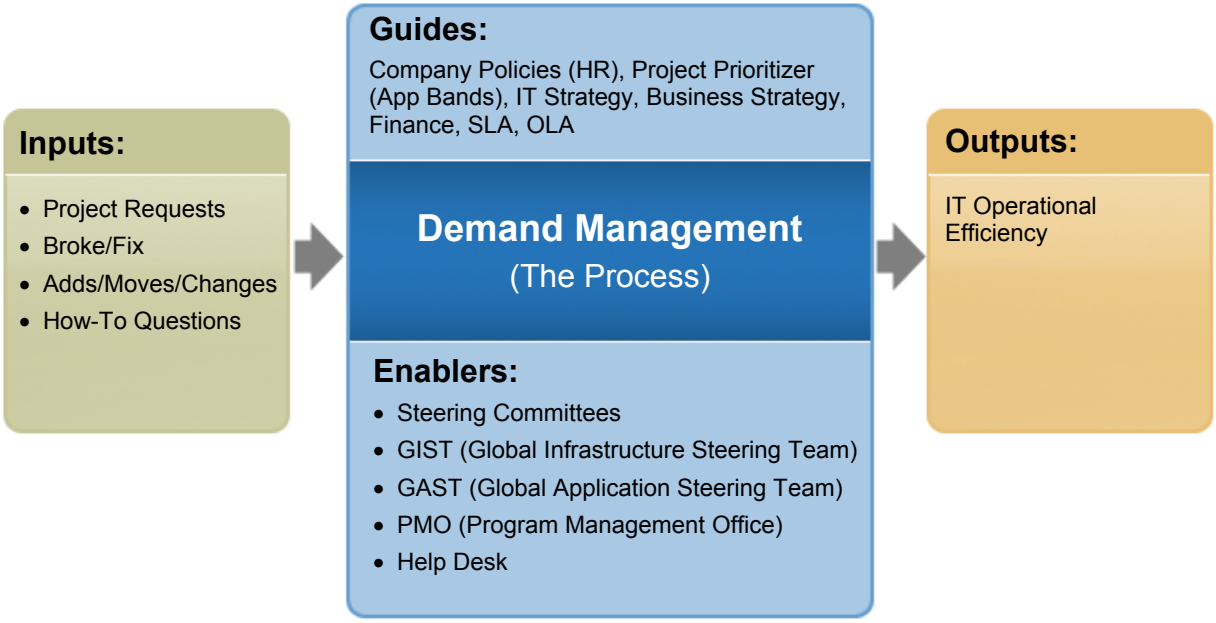
Projects will also be subject to the overall IT strategy (the quality of which varies tremendously between firms), direction for business growth, procurement guidelines, legal constraints, service level agreements (within the business), and existing priorities.

While guides may be the most important aspect of the process, they are also the least well-defined. They are often subject to the experience and expertise of individuals that understand the corporate culture and management's current priorities. Any specific guide or corporate policy can be sufficient to veto a project.

Enablers

An enabler is any operation, team, or process that feeds into, and supports the demand management process. This includes IT steering committees and related teams (infrastructure steering team or application steering team). Legal, finance, and procurement will often get involved based on their roles in supporting the program management office (PMO). While each of these functions will need to provide periodic support, it is unusual for them to make demand management a dedicated process or their highest priority.

Figure 1: Demand Management Diagram



Enablers can also be various parts of IT operations, including desktop services, help desk, IT architecture, and any application teams that may be embedded in the business units.

Bringing IT Together

The alignment of company guides to review inputs by people from the enabler teams is the secret to success of a demand management process. The process must be sufficiently thorough to involve the necessary parties, yet remain adequately nimble to handle emergency projects and adjustments.

Most demand management teams schedule a monthly meeting to review and assess priorities. Most large projects (e.g., enterprise-wide network upgrade) will be considered by steering committees. The demand process will periodically have a major project, but will more typically deal with medium-sized adjustments and modifications.

Many IT managers have difficulty envisioning a functional team at this level. In most cases, their background is tainted by years of experience with inconsistent business cases, irrational demands, or continuous in-fighting. The steady-state demand management process is a place where business cases are consistently documented, and the necessary data is included through a standard process, guidelines, and quality control checks.

Laying the Groundwork

Putting the demand management process into action requires executive support to champion the initiative, and a willingness to collaborate among the various teams involved. A grass-roots movement to improve demand management may improve the process, but it will lack the rigor of central enterprise management.

The Business of IT

The first step toward implementing demand management is to understand and categorize the various requests coming into the IT organization from various business units. The IT organization looks at its customers, the services it delivers, and begins to streamline those services into repeatable "products"—

this is sometimes referred to as "the business of IT." The traditional mindset of "we just do what we are asked" is no longer acceptable or effective in operating an IT organization (or any aspect of a shared services operation).

The IT organization must understand the types of requests, the frequency of requests, the source of requests, and the resources required to address them. Early analysis can also underscore areas where requests can be mitigated entirely (e.g., a help desk that receives many password reset calls should implement an online tool to enable users to automatically reset their own password, avoiding the calls entirely).

Sticking with the help desk example, the demand management team should understand the average number of calls, the questions that are being asked, which geographies and business units are making the calls, and the investment in root-cause analysis after calls are made. It should also understand the operational statistics of the help desk, such as call abandonment rates, average wait times, average call duration, first-call resolution rates, etc.

Each person supporting the demand management process does not need to understand all the operational statistics--but they should have adequate understanding to guide investments in staffing decisions and outsourcing planning. They should also understand the cost implications of various types of support and requests by business units.

Decision-Making Models

Each company has a unique model for making decisions. The demand management team needs to conform to each particular approach.

- Business Monarchy: Decision and spending authority reside within the business units.
- IT Monarchy: Funding is consolidated and the IT organization makes final decisions based on business unit requests.
- Federated: Decision making is collaborative and committee-oriented with a balance of decision-making authority between business units and service teams.
- Fragmented: Funding decisions are based on people rather than the organizational structure.

While demand management process can operate within any of these management structures, the methods for the process will vary based on how funding decisions are made.

In a business monarchy, decisions are made by the business units and any new request to the IT organization will typically have an associated cost. For example, the cost of ordering a new computer or updating software will be paid by the business unit. The step of "paying" for services tends to make the business units more fiscally responsible.

On the contrary, the business units often do not know or understand how IT funding is allocated in an IT monarchy. They view the IT budget as something they must "compete" for with other business units. Individuals within the business unit often ask for everything they can imagine, knowing that their requests will get pared back.

Regardless of the model, the demand management process is still a matter of understanding, prioritizing, and funding requests--but the style of communications and the decision-making process can be almost completely opposite.

Client Requests

Receiving and processing requests from the business units is closely related to the decision-making process—and it can come through a number of channels, ranging from phone calls to formal proposals.

While it is important to understand the various channels for new requests, it is more significant to realize that every IT organization has both formal and informal requests. Informal requests for desktop support or minor project modifications seem benign, but they are actually a key undermining attribute of every IT organization.

Requests normally fall into standard categories, often aligning with operational groups (i.e., desktop, help desk, applications, etc.). Within each of those categories, many IT organizations also categorize requests into smaller groups.

For example, a request for changes to an application might be considered a new project or maintenance work, depending on its size. Most IT organizations have a threshold for the amount of work required on an application that is between 100-200 developer hours. Any project that is below the threshold is considered maintenance and has a less rigorous review process than a new application project (anything above the threshold).

The standard operating mode within many IT organizations has been to hear a request, and then respond with a price estimate. This approach is more accurate, but it is also becoming too slow and tedious for managing demand management in most companies. Leading IT organizations are increasingly using services catalogs as a communication tool to set expectations, and speed up the categorization of requests.

When requests are reviewed by a steering committee or governance board, they nearly always get prioritized in alignment with enterprise objectives. As demand management becomes a standardized process, and in some cases automated, it is important that the IT organization has a consistent framework for prioritizing requests.

Help desks have prioritization schemas that are based on the breadth and criticality of a problem (i.e., a companywide network outage is a higher priority than fixing an individual's broken computer).

Creating a prioritization schema for demand management can become political. Any model that ranks one business unit over another will always introduce controversy. Many IT organizations leverage existing plans for business continuity or disaster recovery to dictate the schema.

A business continuity plan should indicate which systems, business units, or geographies will be restored first. Many demand management teams bypass political controversy by leveraging these existing plans rather than creating a new prioritization schema.

First Steps

Moving from an ad hoc or inconsistent model for handling demand management to a structured process usually begins with an executive mandate—usually in the form of "enough is enough, let's get this thing fixed…" The various participants in the demand management process usually ask the question, "Where do we start?"

The first step is in gathering data about the type and volume of requests currently coming into the organization—both formal and informal—and assessing what was requested rather than what was provided.

Armed with some basic facts, the organization can create or modify the existing services catalog. The demand management team can also assess whether the IT organization has a credibility problem, or if the existing services catalog adds value to communicating with business units.

A services catalog should balance information and brevity. The catalogs created by some companies that are hundreds of pages with SKU numbers tend to be counterproductive. Business units are usually looking for a cost estimate rather than being forced to learn a complex "configuration" schema.

Perhaps the most important role of a services catalog is that it allows business units to quickly estimate the cost of an "idea." Many times, business units want to test the feasibility of a new idea, but are unsure of the cost of a technology solution. While they don't require a highly accurate cost estimate, they do require it quickly. Most IT organizations are completely unable to meet this requirement.

IT organizations typically engage demand management with the best of intentions toward improving relationships with business units. Despite good intentions, any change is difficult. The implementation of demand management disciplines will raise longstanding concerns that the IT organization costs too much, provides too little value, or otherwise is not aligned with business objectives. To build credibility and support, the IT organization should immediately begin holding itself accountable for the newly created or modified metrics.

Conclusion

The longstanding challenges of managing relationships between IT organizations and business units will be improved through demand management solutions. Success is more frequently determined by taking a systematic approach toward creating a baseline, setting expectations, and managing change. Demand management should be viewed as a core process to building relationships, gauging requirements, and establishing acceptable pricing. Demand management processes should remain almost identical within an IT organization and for governing outsourcing relationships.

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