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Splitting demand from supply in IT

Dividing IT into demand and supply organizations helps companies realize the full potential of their IT investments.

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Many companies, in their zeal to improve IT's ability to meet business needs, have brought teams of IT developers into the business units they serve, even as those companies are centralizing the larger core of basic IT services. Although moving IT into the business helps to align development efforts with business goals, it also has the unfortunate consequence of fragmenting IT developers across business and functional units, so coordinating and prioritizing projects becomes harder. In two business units separate teams, using different vendors and technologies, may simultaneously be creating similar applications. Business units may be satisfied with the short-term results, but the company as a whole may suffer from high development costs, poorly managed performance, and difficulties deploying cross-group functionality.

At the other end of the spectrum, companies that have focused on efficiency through centralization have struggled with agility and speed in developing applications. Business units can become frustrated by long delays in the deployment of needed capabilities, and IT may be viewed as an unresponsive bureaucracy, a black hole for business requests.

So how can companies achieve both agility and efficiency in application development? Some leading-edge companies are disaggregating the problem by splitting supply from demand. They create both IT supply units (such as centers of excellence or shared application-development groups) and demand units that act as tech-savvy intermediaries between the business and IT to coordinate requests across business units (Exhibit 1). In this model demand units typically reside within IT, officially reporting to the CIO, although they have responsibilities to the business and IT and may be run by both jointly. They work closely with each business to understand its needs and opportunities. They then work with IT suppliers—in some cases, internal application-development teams, in others outsourced providers—to translate the business's needs and opportunities into specifications for new IT projects.[1]

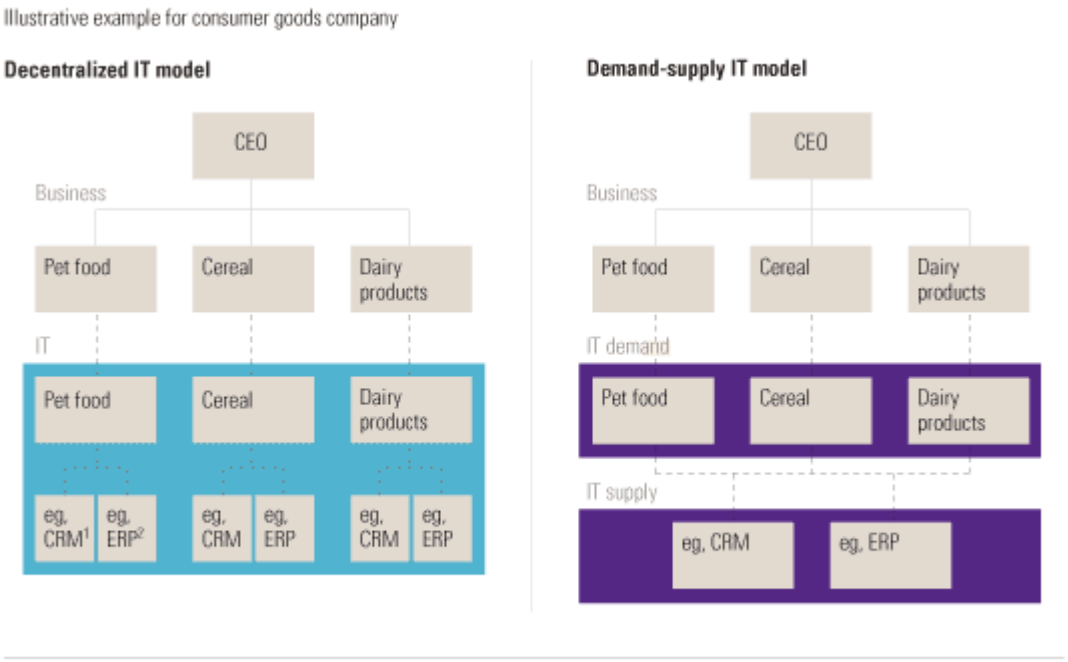
Creating this kind of demand management offers several advantages. First, it introduces internal market discipline by providing the business units with expert buyers—tech-savvy managers who combine an intimate understanding of client needs and a familiarity with the supply market. At a major financial institution, business users felt that IT was responsive, but developers were spending too much time implementing low-value enhancements, and no one had been looking at the larger issues of how the institution's technology investments should evolve. The company solved these problems by creating an IT demand organization, which improved its ability to plan a technology path and to track the commitments between IT and each of the business units.

A second benefit of this structure is better coordination of requests from various business units. As a result the demand managers can purchase IT services and supplies in larger volumes, increasing the efficiency of a company's IT resources, avoiding duplication, and encouraging standards and reuse. The near-term benefits include better coordination and prioritization of efforts; the longer-term benefits include faster deployment of enterprise-wide capabilities and a well-defined technology road map. In a European telco that moved to this type of demand model for IT and network management, a typical project's return on investment increased by an order of magnitude.

Furthermore, because the IT suppliers, whether internal or external, are working with a more technologically savvy customer, the speed and quality of delivery improve. A software provider that split its supply and demand organizations improved its customers' satisfaction significantly within six months, largely because the demand organization, as a well-prepared customer advocate for the business, could work more effectively with the supply organization.

Benefits accrue to IT professionals as well. When developers are consolidated into fewer supply organizations, centered on their expertise, professional development improves and broader career paths become available to IT staffers, who also like working with more technically sophisticated customers.

Beyond the



[1]Customer relationship management.
[2]Enterprise resource planning.

operational benefits, several trends are helping to accelerate the division of supply and demand. The growing availability of outsourcing and offshoring options increases the attractiveness of the model, since suppliers can be either internal or external. Organizations are no longer limited by the size of their in-house staff, so solid demand management becomes even more important, lest business units overspend on multiple external providers. Another trend is the increasing "productization" of IT; in other words, IT standardizes its operations by using a limited portfolio of infrastructure products rather than building systems to order. With this approach, the designers, who create the specifications for a system or product, can focus on the business problem, letting the supplier determine the requirements for hardware, software, and storage. Third, IT and its evolving capabilities increasingly shape business processes, so that work flow changes go hand in hand with IT changes. Implementing a modern customer relationship management (CRM) system for a sales force, for example, almost certainly requires a change in the work flow, and a demand organization would be well positioned to harmonize the process and IT changes.

Our early work with a number of companies has allowed us to identify several factors for success in setting up demand-management and supply organizations. First, companies must understand the common ways to manage demand, as well as how the new organization can improve them. Also, the new organization should be structured correctly and must get the right type of talent into the important new roles. Demand managers must understand the business processes of the internal customer and the capabilities of the IT organization. Aligned with the business units and processes, demand managers should be accountable for fulfilling business requirements. Finally, the demand organization should be centralized to coordinate demand requests across various parts of the company while managing a range of IT suppliers, from in-house staff to outsourcers around the globe.

Getting demand right

When splitting demand and supply, some companies focus on improving the supply organization. The demand one, however, is what distinguishes this model from the traditional IT setup, and getting demand right is more difficult.

In most cases, business customers and IT are quick to see the potential benefits of a demand organization, so making the necessary changes is usually easy. Defining priorities and areas of responsibility can take more time (and more negotiating), but these often evolve as the demand group begins to work with IT and its internal customers. In our experience, four practices make it easier for the demand organization to succeed in its mission.

Align demand organizations with the business units

Demand organizations align with the business to act

Locating demand managers within business units can free up the supply side to centralize regionally. See "Building a global IT organization: An interview with DPWN's managing director for IT."

as the true voice of customers in clarifying what they mean—which is not always the same as what they say. Consequently, the best structure provides for one demand organization for each business unit, and these demand groups are managed jointly to coordinate requests. Demand managers should have a deep knowledge of their customers' processes and a solid understanding of application development. The ideal background for such a manager includes experience as an application developer and a desire to pursue a management career track. The development of these managers should involve ongoing training in general-management skills or practices, such as Six Sigma, project management, and developing a business case.

Supply organizations, in contrast, may be structured around broader competencies and business processes (such as sales, operations, and back-office functions) or around technologies like online transactions and data warehousing rather than business units. Because supply organizations work with their demand counterparts, which coordinate similar requests among business units, they can make broad decisions in the best interests of the entire organization rather than a single business unit. Getting a single view of the customer, for example, is often a tough challenge in multibusiness enterprises. A sales-focused supply organization, however, could successfully shepherd the CRM platform for the entire company, even if business units continue to operate with separate sales forces.

Let demand organizations own business processes

Since business processes are increasingly shaped by IT solutions, businesses should assign the responsibility for work flow designs to a group that understands the underlying technology as well as the key business pain points. The demand organization has expertise in defining business needs and requirements, so it is well suited to work with business leaders to use IT realistically and effectively to enable processes, avoiding the costly fixes that become necessary when processes fail.

Although this structure may be challenging to implement, placing the responsibility for business process designs in the demand organization is worth the effort: it assigns the definition of processes and requirements to a group that balances the interests of the business with technical knowledge. When technologists write requirements, the designs can be excessively complicated; when business needs are overemphasized, designs can focus on exception cases, becoming excessively specific and inflexible as business needs change. Consider many of the disaster recovery designs implemented by banks in the United States after September 11, 2001. Decision makers, in their haste to improve business continuity, favored redundancy over improved architectures. Because these decisions were shaped by short-term business concerns, banks might not have maximized the value of the large investments they made. A well-positioned process architect, such as a demand organization, could have managed demand effectively, balancing short-term needs and long-term health.

Give demand organizations a mandate to rationalize demand

Most companies have too many applications doing similar things, so they periodically have to prune their application portfolio—a costly and time-consuming process. Demand organizations can help prevent this situation from developing in the first place by minimizing the number of IT projects and applications at the time of funding. Managers should avoid silo effects by holding regular meetings among demand organizations to review the project pipeline and identify opportunities for collaboration. In doing so, they help the organization spread investments responsibly. Without such fiduciary behavior, profitable business lines may spend too much on IT or fail to share solutions with other parts of the organization.

Empower demand organizations to manage suppliers

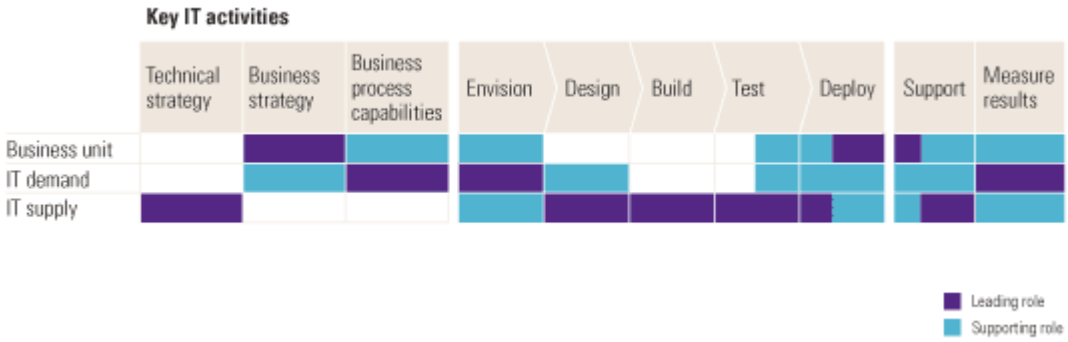
The demand organization should free the business units from the complex task of managing a broad range of IT suppliers, both internal and external. Typically, people with the right skills are already in the IT supply organization, where they manage internal teams or outsourced resources. The best option usually is to bring such people into the demand organization, but even this approach is not always straightforward: they will require new training in the needs of the business and skills in managing a broad range of relationships collaboratively. At a logistics company, a manager who moved from IT supply to IT demand was accustomed to fine-grained management (such as how best to operate the servers). He needed several months to learn that his new role required him to focus instead on much broader service levels and efficiency.

In addition to providing for these success factors, the organization must refine the metrics for success and some key processes of project management. Metrics for demand organizations should center on their effectiveness and customer satisfaction. For supply organizations, metrics continue to address cost efficiency and quality. The organization also must change its processes, especially those for project funding and software development.

Adapting processes to the new model

In the traditional models, business units frequently finance their own application-development projects. While they're often satisfied with their return on investment, the company as a whole may spend more than it should. With the introduction of a demand-management organization, the business and its demand group should work together to define a capabilities strategy that shows how the application portfolio must change to achieve business goals. The entire demand organization should then coordinate with the business units to make enterprise-wide funding decisions, based on this strategy, that include not only individual projects but also longer-term decisions on architectures and application portfolios.

The demand-supply model also requires changes in the software-development process. Typical projects go through five phases: envision, design, build, test, and deploy (Exhibit 2). In traditional models, the business customer envisions and then IT designs, builds, tests, and deploys. Unfortunately, what is delivered may not be what the business envisioned. In the demand-supply model, the demand organization drives this envisioning phase regardless of whether the original idea came from the business, the demand organization, or the supply organization. The demand group brings the business and the supply organization into one conversation to explore ideas, which the demand organization ultimately translates into a business requirements document. The supply organization then manages the next phases: technical design, building, and testing. The demand organization will be involved during those phases and draw in the business as needed. For developers, this approach provides the best proxy for the business customer whenever they have questions or ideas. At deployment, the business carries out acceptance testing, as in the traditional model, but the demand organization provides expertise if problems arise.



Avoiding pitfalls

Creating a demand organization requires patience and persistence, and it isn't for every company; those with highly stable business needs or a single core business, for example, may not need this model. To make sure IT demand gets off on the right foot, companies should clearly define the role and scope of the demand group and make sure the details are understood by everyone involved—the business as well as the demand and supply groups.

Common mistakes include letting the demand organization focus too closely on a single business unit or on the supply organization's processes. Either pitfall can distract the demand group from its higher mission of enterprise-wide efficiency. Transparent communication of key metrics is, of course, critical—not just between demand and supply but also with senior managers who will be tracking the new organization's success.

As organizations implement and experiment with this approach, we expect to see extensions of the model. Consumer companies with complex products could introduce a customer advocate organization that represents the customers' needs to the supply organization. Or business functions other than IT could adapt the model; for example, a legal department could serve internal customers in the same way. In these and other cases, sound demand management would help many organizations improve their total productivity.

Organizations that are switching to the demand-supply model enjoy significant gains in productivity and prioritization of investments. Organizational complexity decreases, requirements are better defined, and even the perception of IT improves. Most important, business customers should begin to receive the most value for the resources invested.

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Notes

[1] David Mark and Eric Monnoyer, "Next-generation CIOs," *McKinsey on IT*, Number 2, Spring 2004, pp. 2–8.