The Demand Supply Governance Framework

Supporting The Sourcing Governance Foundation Qualification

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Preface

The most important contribution that IT can deliver to the business is to add maximum value in relation to the extent of investment in IT. The added value is optimal when the delivery of IT services matches perfectly with business demand. Over the years the delivery of IT has become more critical to the business. Based on a well evolved sourcing strategy, the delivery of IT is either done by the internal IT department or is outsourced to third parties.

Where managing supply is professionalized through sourcing governance and the market acceptance of sourcing models, the bundling of demand, and the adequate balancing of demand and supply, has all too often been neglected. This is true for both IT and the business side of organizations. IT has a tendency to focus overly on the delivery itself, although this may be professionalized through service levels. Also, business and information management too often focus on the technical issues and the delivery of IT on time and on budget.

The Demand Supply Governance Framework (DSGF) delivers the best of two worlds. On the one hand of the world of IT capabilities and on the other hand of the world of business wishes: the bundling of business demand, whilst balancing it against the possibilities and cost of the adequate delivery of IT services.

Table of Contents

The Demand Supply Governance Framework

1: Introduction

Four general observations support the development of 'Demand Supply Governance' (DSG) approaches in the marketplace.

- Firstly: many outsourcing initiatives involve IT infrastructure management and focus is biased towards Supplier Management. As a result, Demand Management - balancing future requirements of the various business units and overall corporate interests - is under-estimated.
- Secondly: integration between the application and the infrastructure domain becomes increasingly problematic, especially in a multi-vendor outsourcing situation.
- Thirdly: an increasing number of organizations require a governance model to control innovative application development in connection with subsequent exploitation.
- Finally: alignment and governance are a means to an end. They can only be successful with the customer perspective in mind. Existing frameworks are often translated from only few specific focus areas into process models, thus creating numerous workflows that makes Demand Supply Governance (DSG) too complex and too time consuming. As a result, business delivery tends to be too late and too costly. A focus on the delivery of the right results, delivered on time and for a reasonable price, is required to demonstrate clearly the added value of Demand Supply Governance.

Attempting to find the right balance between Demand and Supply in the overall management of the IT value chain has resulted in the development of the Demand Supply Governance Framework (DSGF) which is described in this book.

Before we continue, we will need to establish a practical definition of Demand Supply Governance. Our starting point will be Peter Weill's (2004) definition of IT Governance, which, in turn, is based on financial and corporate governance principles: 'IT governance is about specifying the decision rights and accountability framework to encourage desirable behavior in the use of IT.'

Similarly, we define Demand Supply Governance as follows:

> Demand Supply Governance is about specifying the decision rights and accountability framework to encourage desirable behavior and focus in the interaction between Demand for and Supply of ICT services.

This definition of DSG highlights two sides of governance:

- The behavioral side of DSG that encompasses the relationships and ensuing patterns of behavior between the different actors involved in the field of demand and supply of ICT (information and communications technology) services (eg business managers, key users, IT managers, IT staff and vendor staff).
- The hard measurable targets of DSG that refers to the set of rules (company and/or external) that frame the relationship and private behaviors (eg corporate governance code, accounting rules and regulations, and IT architecture).
- The concept of Demand Supply Governance is applicable to all organizations, both profit and not-for-profit. Even though we will frequently refer to 'business' and 'business unit' it is possible to substitute these terms by 'not-for-profit organization' and 'organizational unit' (eg a Directorate in a governmental Department).
- In the next section we will present a closer examination of some of the dynamics between demand and supply, present a first indication of how 'desirable behavior' is defined, and provide a top level overview of the roles involved.

2: Introducing Demand Supply Governance

2.1 The Need for Demand Supply Governance

What are the ultimate objectives we are trying to achieve with Demand Supply Governance? Consider the four major aspects below:

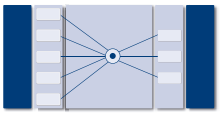
- The traditional IT organization (an internal department) is increasingly under pressure, due to disappointing results. Complaints are usually that costs are too high or delivery is poor. Regardless of whether this is objectively true, or just a matter of opinion, this is what the business side of the organization often perceives. This perception poses a real threat to the internal IT department.
- Acceptance of outsourcing adds to this pressure, since outsourcing to an external supplier provides the business with an alternative to the internal IT department. Acceptance may vary with the IT responsibilities outsourced. The externally-placed IT infrastructure (eg data center services) may be considered a commodity. At the other end of the spectrum is offshoring, the development of new, key business applications. The predominant outsourcing model today is the multi-vendor approach, where the organization outsources services to a number of external suppliers.
- Characteristics of suppliers and demanders have changed; both have matured. Suppliers have set up huge back offices, especially in countries where the costs of labor are relatively low. Distance (physically as well as culturally) between the customer and the provider, is growing.
- Finally, and most importantly, the added value of IT is still under discussion. Furthermore, if IT does add value, exactly what value does it add? Quantifying the added value is a requirement, even though such quantification is often difficult to achieve.

Therefore, the mission of DSG is twofold:

- First, that services, as required by and agreed upon with the business, are actually delivered to the business: The proper services must be delivered on time and in accordance with the agreed upon quality specifications, and at an acceptable level of costs. Any DSO (Demand Supply Organization) failing to manage these aspects will fail. It is comparable to, in marketing terminology, a 'dissatisfier'. For the customer, it is essential that this objective is met. Failure to meet this objective will lead to severe dissatisfaction, whilst success in meeting this objective will not improve satisfaction.
- Second, to increase the added value of IT and make it manifest: This implies focusing on those services and projects that lead to a sustainable competitive advantage for the business and not spending any undue resources on 'IT commodities'.[1]
-

When attuning demand and supply to best meet the organization's overall objectives, regardless of whether it concerns a business or a not-for-profit organization, there are always certain preconditions and constraints that must be considered. Some of these preconditions and constraints are organization-specific (the DSG mission must always be in line with, if not derived from, the overall mission of the organization and the derived business planning and operating model), but some may be industry- or country-specific (eg ensuring compliance to rules and regulations).

2.2 The 'What' and 'How' of DSG



Typical business models include autonomous Strategic Business Units (SBUs). Each SBU has its own specific information systems requirements. Although the various needs of the business units are not necessarily in contradiction with each other, they are probably different. On the supply side,

1 This topic - does IT add value? If so, when and how? - is part of an ongoing, extensive debate by IT practitioners, business and academics. A widely known and controversial contribution to this debate was Nicholas Carr's article 'IT doesn't matter' (2003).

many organizations pursue a multi-vendor strategy, using a range of internal and external suppliers. Each supplier has their own strengths and weaknesses. Exploiting these supplier strengths is one of the key drivers behind the multi-vendor strategy.

With demand and supply diversifying, making demand and supply of ICT services meet in both an effective and efficient manner has become an increasingly complex task. There are two core issues:

- Bundling demand: Articulating and bundling business demand in such a way that both the SBU objectives and the overall organization objectives are met with solutions that are both fit for purpose and cost-effective. DSG can make this happen by standardizing IT solutions when possible and facilitating economies of scale opportunities, by monitoring legitimate allocation of resources and by translating business requirements into IT products and services. The ultimate goal of bundling demand is not to create a single, unified demand, which is a compromise that suits none of the parties. Rather, the goal is to make decisions and set priorities. If the interests of the business are better met by four different (or differing) services, rather than by a single solution chosen solely for reasons of 'economies of scale', then that is a valid option.
- Managing supply: Ensuring that the chosen supplier delivers the solutions as contracted (ie on time, on budget and at the agreed upon level of quality). Since the customer and the supplier - especially if the supplier is an external, commercial party - may have conflicting interests, it is important to make sure that the expected benefits are actually secured.

2.3 Successfully Managing DSG

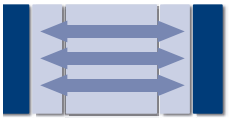
Once it is understood that DSG is required, it will raise a number of questions, such as: When is DSG successful? What makes DSG successful? How should we organize DSG? For answers, we will examine four topics: strategy, delivery flows and results, governance hotspots and the Demand Supply Governance Framework.

Strategy

In order to be successful, we first need to set the objectives: When can DSG be considered successful? It must contribute to the overall objectives of the organization. A strategy is required; otherwise everyone involved in DSG will soon be overwhelmed by day-to-day operations and ad hoc decision-making. It will then be very easy to lose track of the overall picture. Obviously, the strategy must be aligned with the corporate objectives, the IT strategy and the sourcing strategy. Is IT considered a commodity and of little use to achieve sustainable competitive advantage? If so, then a low cost, operational excellence strategy is the obvious choice. For organizations operating in complex and dynamic markets, innovation, a short time-to-market and focus on customer intimacy will be more appropriate.

Capturing the essence of the strategy in a mission statement will not only help to communicate the strategy to all organization members and stakeholders, but will also help answer the question, 'When is Demand Supply Governance truly successful?'

Delivery flows and results



Control 3 delivery flows

Control deserves special attention and invites the question, 'What does the governance organization stand for?' The answer will depend, in part, upon the type of organization. For example, it may be a body focused exclusively on monitoring (eg as an extension of the Board of Directors), or it can be an organization that also channels special orders and supports projects. The latter involves more staff and will be closer to the IT organization and the shop floor.

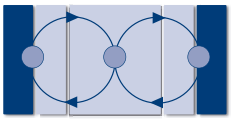
When supplying IT services to the customer, there are three flows to control:

- The correct delivery of standard day-to-day services and standard requests to the customers. These services or products are ordered and delivered on the basis of a catalog and/or SLA (service level agreement).

- The on-time and correct delivery of changes (special orders). With regard to these changes, one may think of products that can become the standard (after all, the very first color printer was special), or of application changes.
- The on-time and correct delivery of project results and the control of the project portfolio.

We will present all flows in more detail in section 4.

Parties and alignment: governance hotspots



Focus on interfaces

The flows each involve three parties: the customer, the supplier (which includes the in-house back office) and a Demand Supply Organization (the place where the alignment of demand and supply between the other parties takes place). One of the pitfalls is that in detailed process and procedure descriptions, workflows are led past specialized employees. This results in a large numbers of interfaces, each with its own risk of mistakes and delays. In terms of control, it is best to focus on the interface between customer and the DSO, between the DSO and supplier, and on the interface of the demand and supply alignment within the DSO. In a properly functioning DSO, there will be minimal attention to the internal alignment, so that the focus can be on the customer and the performance as delivered by the supplier for the benefit of that customer. Alignment between parties and within the DSO takes place within so-called 'governance hotspots'. These governance hotspots will be explained in section 5, as part of the answer to 'How to govern between Demand and Supply'.

The Demand Supply Governance Framework

Specification within the DSGF: focus areas

The second part of the answer to the 'How to govern between Demand and Supply' question can be found in section 6, where we will explain the Demand Supply Governance Framework (DSGF). Quint has developed a framework containing 29 focus areas, each of which specify a certain aspect of DSG. To further answer the 'how to govern' question, each

focus area can be broken down into a number of aspects (such as processes, roles, KPIs, etc.).

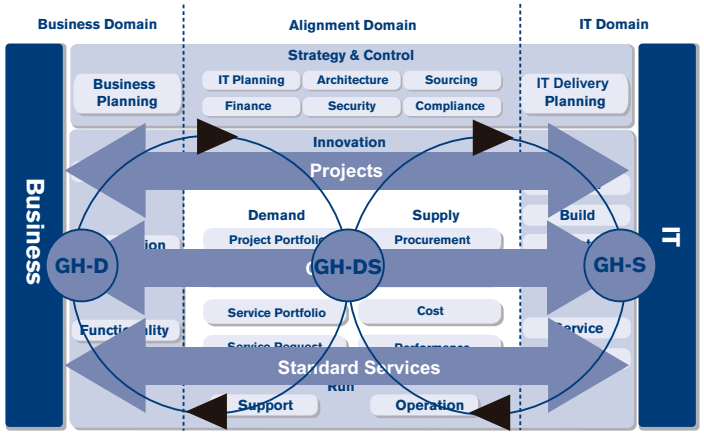


Diagram 1: Delivery flows, governance hotspots and the DSGF

Diagram 1 combines the delivery flows, the governance hotspots and the Demand Supply Governance Framework, and illustrates the complexity of DSG. However, the three components (delivery flows, governance hotspots and DSGF) will help focus on the most important aspects of DSG and ensure the adequate delivery of ICT services that are aligned between the business needs and the suppliers' potential.

The delivery flows will be the focus of the next section.

3: Focus on Results: Three Delivery Flows

Having introduced the context of Demand and Supply and established the need for Demand Supply Governance, we must now specify the ICT services. Not all ICT services are alike, and bundling demand and managing supply of these different services may require a different approach, or at least a different emphasis on certain aspects of governance.

In our practice we have identified three types of services, or as we refer to them, delivery flows:

- Standard Services
- Changes
- Projects

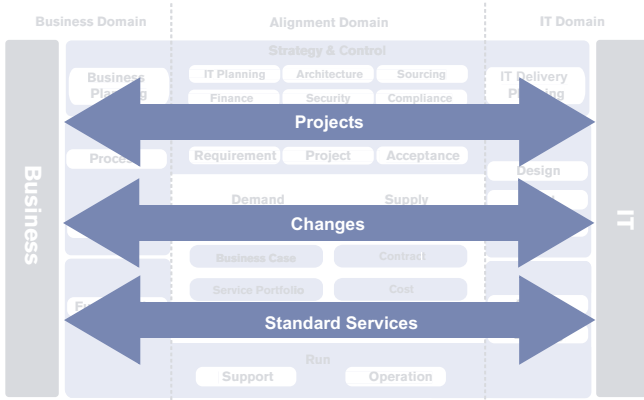


Diagram 2: Delivery flows (projects, changes, standard services)

The last two flows deal with 'change' (ie introducing new IT products, services or IS (information system) functionality into the business environment). These are typically discretionary events, as opposed to the first flow, which focuses on services of a perpetual nature. Standard services provide a mix between 'continuous services', such as providing application access to authorized users, and 'discretionary events', such as the installation of a desktop for a new employee, typically triggered by a standard request.

It is important to stress that, when setting out to control these flows, in the end it always comes down to results-driven control to the output of the flows. A well-designed and well-managed process still cannot transform lousy input into high quality output: 'garbage in, garbage out'. Therefore, processes, throughput and output must always be considered in the light of the desired results.

Balancing between core and detail: Why three delivery flows? Why not more?
We introduced three delivery flows that focus on the results of demand supply governance: the timely delivery of the right services at a reasonable price. In addition to the projects, changes and standard SLA-based service flows, one might also come to believe that there is the need for more detailed flows.

Consider the standard SLA-based services. These services are based on catalog items or Service Level Agreements, and in many of our governance assignments we use both a delivery flow for 'SLA-based services' (such as a network) and one for catalog-based services (such as a PC), since the delivery of a PC is different from the availability of a network. For the design of a Demand Supply Organization this is often a necessary design activity. However, for our clients we focus on the delivery of agreed upon services, at an agreed upon price, and, therefore, on a single flow.

Introducing four or five flows will only distract us from the core issues: how to deal with the delivery of projects, changes and standard services.

In the following subsections are brief descriptions of each of these flows.

3.1 Standard Services

The standard services have been defined in the Service Catalog and agreed upon in the Service Level Agreement (SLA). The service and service levels have been defined and will not change during the time that the SLA is valid. Any changes to service, service levels or other terms and conditions - such as price - must be captured in a revised SLA (and possibly in a revised contract).

An example is 'availability of email services'. In the SLA, the agreement states that the corporate email services will be available 365 days a year, seven days a week, and 24 hours a day. Granting a new user access to the email services can also be an SLA-based service. However, this is a service request, since it requires a specific trigger.

The service requests are clearly and unambiguously defined in the Service Catalog. For each request, the customer and the supplier know the costs, time of delivery, terms and conditions and every other 'service level' involved. For example, for a new laptop, the time of delivery is five working days, and the user ID will be available within two working days. A request to move one desktop is standard, but a request to move ten desktops at once will be considered a special request.

The supplier knows the risks associated with the provision of a service request well in advance. There should be no surprises either for the requestor or for the deliverer.
The key responsibility of DSG is to ensure that both the suppliers and the requestors are adhering to the services and service levels agreed upon. Costs of the 'continuous services' can be budgeted with a rather high level of certainty, since the SLA is based on agreed upon capacity forecasts, deviations from the forecast (within an agreed upon bandwidth), and agreed upon rates and prices. However, it is difficult to set certain financial targets and make DSG staff accountable for service requests. Even though the costs of an individual request ('P', the price in the Service Catalog) may be well known in advance, the business domain is responsible for the number of requests ('Q'). Overall costs, P times Q, may be rather unpredictable and difficult to control by DSG.

Key tasks and activities

- The starting point is the contracted services: Contracted services include a service description, service levels, forecasted volumes and the pricing model (including unit prices and/or volume bandwidths), and are recorded in a Service Level Agreement (SLA).
- Contracting the Service Catalog (the Service Catalog targeted at the customer/user, not the vendor Product and Services Catalog): The Service Catalog includes the definition of the products and services, the related service request service levels and the unit prices for service requests.
- Properly managing the SLA requires Capacity Management (and determining the associated costs, and thus the business case): The volume forecast must be updated regularly (eg a rolling quarterly forecast and an annual forecast with a 12-month planning horizon). In addition to forecasting, the actual demand volumes must be monitored constantly. Significant deviations from the forecast must be examined and explained.
- Managing the actual delivery of contracted services: This requires service monitoring, incident resolution in case of any failures, and immediately reporting of high impact incidents to the business.
- Processing service requests: Delivery of service requests, monitoring that the supplier meets the service levels and assisting the business domain in aligning service requests with the service portfolio.
- Reporting service performance: This includes drafting and sending reports (based on supplier reports), as well discussing the subsequent reports with the customers.
- Managing the service portfolio: Monitoring deviations of service requests to the service portfolio (a request filed as 'service request' that should be filed as a 'special/Request for Change' or RFC), proposing updates to the service portfolio (adding new products and/or services, removing obsolete ones, in alignment with business requirements), and negotiating the unit prices, volumes and service levels of new service requests.
- Identifying and implementing process improvements throughout the ICT value chain: To improve service performance and the service delivery and support processes.

- Invoicing the customers: From drafting and checking the invoice, to discussing invoice disputes and allocating the costs to the business units.

3.2 Changes

A request for a product or service that cannot be obtained through a service request can be considered a 'special' or a 'change'. If the need for the new product or service is permanent, it is likely that the product or service will be included in the next Service Catalog or Service Level Agreement, thus 'standardizing' what was once 'special'. While standard services are budgeted 'up front', the business may pay for specials from any budget they choose (project or non-project, IT or other), in accordance with internal accounting standards.

The requirements for the special requests must be defined in close co-operation with Demand and Supply, to ensure that the business gets what it wants and that Supply is able to deliver. It is difficult to forecast the price of a special request and the number of requests. Therefore, setting target budgets for changes may be tricky.

Key tasks and activities

- Ensure that there is a process for specials (non-standard changes), from raising the request to defining the formal interfaces and procedures, and to further processing the request all the way to the implementation and evaluation. This includes defining the service levels concerning requests.
- It is important to agree with the business on requirements and ensure that changes are delivered to meet the requirements.
- Capacity Management is important. However, forecasting does not focus on the expected number of changes, but rather on the total financial impact or required FTE (full-time equivalent) volume.
- Processing change requests: This includes delivery of non-standard changes (typically managed like a small project), monitoring the progress of changes and assisting the business domain defining their requirements, providing technical direction, and setting up business cases.

- Reporting service performance: This includes drafting and sending reports (based on supplier reports), as well as discussing the reports with the customers.
- Identifying and implementing process improvements throughout the ICT value chain; to improve service performance, and the service delivery and support processes.
- Managing the service portfolio: Identifying potential new, standard services and requests, proposing updates to the service portfolio (also removing obsolete products and services), and negotiating prices and tariffs.
- Invoicing the customers: From drafting and checking the invoice, to discussing invoice disputes and allocating the costs to the business units.

3.3 Projects

The objective of both changes and projects is to introduce new, or modify existing, services or products. The demarcation line between a 'project' and a 'change' is often the amount of money (based on the number of hours work) and the time it takes to complete the work. However, another dimension, such as complexity (either technological at the product or service level, or managerial, as it relates to the organization and stakeholder), may also be a reason to treat a change initiative as either a change or a project.

The level of managerial complexity is our major consideration for distinguishing 'changes' from 'projects'. Even more so than with changes, the project requirements must be defined with close co-operation between Demand, Supply and the DSO (the Demand Supply Organization). Even though certain project procedures can and must be contracted, situational factors will dictate the execution of each individual project. As a result, each project will be unique.

As previously stated, the amount of capital and labor resources committed to a project, and the duration of this commitment, are considerable. To allocate scarce resources effectively and in alignment with business priorities, the DSO will have to actively manage the portfolio of all current and intended projects.

Key tasks and activities

- Ensure that there is a (contracted) process of projects (defined as large and complex changes) throughout the entire value chain, from the business domain to the IT domain, defining projects, project governance (ie clear rules on the contents of a Business Case, allocation of roles such as Business Executive, approval of Project Brief, role of Project Board and Business Project Board[2]) and project 'service levels'.
- Again, Capacity Management is essential. However, just as with 'specials' (change requests), forecasting does not focus on the expected number of changes, but on the total financial or required FTE volume.
- Processing change requests: This encompasses the delivery of large, non-standard changes (projects), monitoring the progress of projects and assisting the business domain defining their requirements, providing technical direction, setting up business cases and transition schedules, and controlling that the projects and project portfolio are aligned with long-term business and corporate plans.
- Active Project Portfolio Management: In addition to approving requests (ie adding projects to the project portfolio), such management also entails monitoring project progress, and updating the project's business cases, to ensure that the overall direction and resource allocation are in line with the strategic objectives.
- Reporting service performance: This includes drafting and sending reports (based on supplier reports), as well as discussing the reports with the customers.
- Identify and implement process improvements throughout the ICT value chain: To improve service performance, and the service delivery and support processes.
- Invoicing the customers: From drafting and checking the invoice, to discussing invoice disputes and allocating the costs to the business units.

2 Project Board and Business Project Board will be covered in section 6.3 Structured Exchange of Information.