

Balancing supply and demand in IT

Introduction

Enterprises have long defined their relationship to the market based on the model of supply and demand. The model predicts that in a competitive free market, price will function to equalize the quantity demanded by consumers and the quantity supplied by producers, resulting in an economic equilibrium. In recent years, IT executives and their business peers have also begun to define their interrelationship in terms of the supply and demand model. Many enterprises looking to operate more cost-effectively and gain business value from IT are evaluating the supply and efficiency of IT services delivered. They're also realizing they need to manage demand more effectively as well. Their goal: Find balance—a point of equilibrium—where the ability to deliver services satisfies the business need.

“Compelled to achieve closer alignment with company needs and business demands, IT has once again entered a time of transformation. Where once IT solely helped support the business, now it must help define the business.”

Computerworld, “Reinventing IT: From Supporting Player to Strategic Partner,” Ellen Fanning, February 19, 2007

But therein lies the crux of the problem: Business demand for IT has always exceeded the IT organization's supply of resources, despite best efforts to evaluate and prioritize requests and optimize resource allocation. Even with the implementation of supply-side managerial processes to monitor and maintain an efficient delivery of IT services, the benefits often aren't recognized because IT is unable to communicate its accomplishments in relevant business terms. This results in a perceived delivery gap affecting the credibility of the IT organization.

This white paper examines a means to achieving a workable point of equilibrium between the demands of the enterprise and the services an IT organization can supply. Using the supply-and-demand model to define this relationship, we'll discuss the benefits—and the challenges—of managing each side of the equation. We'll then describe a balanced approach that uses managerial processes and automation to provide increased transparency into the work of IT, and alignment with business objectives and priorities. Ultimately, this balanced approach allows IT executives to collaborate more effectively with their business counterparts and deliver on their needs.

Supply and demand: the model

How a business or enterprise defines itself, in relation to the market it operates in, is key to how it will set its business strategy. In its most basic terms, an enterprise's business strategy defines measurements for total output by first judging demand for its product, and then allocating its limited supply of resources to maximize production levels and increase its profitability. It's simply supply and demand.

“What businesses need and IT should be providing are innovative solutions to business challenges ... creatively applying technology to produce goods more efficiently and at a lower cost, to sell and service more of them, and to do so at the highest possible profit margins.”

Computerworld, “Reimagining the IT Department,” Julia King, February 19, 2007

The model contains two laws. The “law of supply” states that supply is directly proportional to price; the higher the product’s price, the more the producer will supply. The “law of demand” says that a consumer’s demand is inversely proportional to price; the higher the product’s price, the less the consumer will demand. The market price of a product or service is where consumer demand and producer supply meet (see Figure 1).

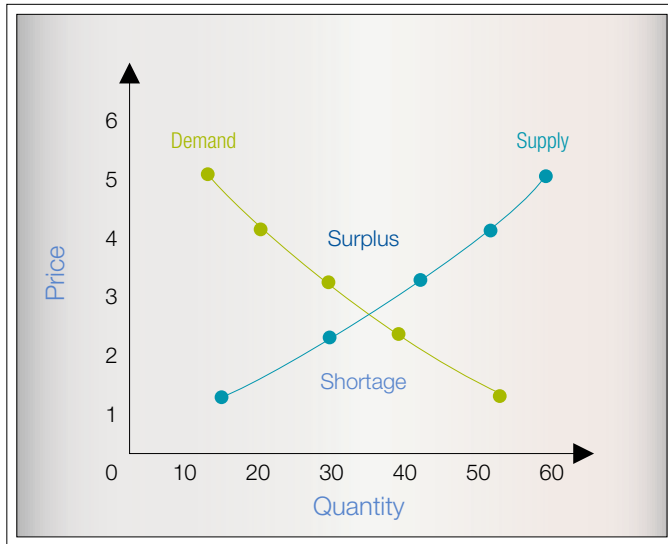


Figure 1: Supply and demand

This model serves well to define and understand the growing, maturing relationship between the enterprise, composed of differing business units with their own, sometimes conflicting, demands on the supply of IT services, and the internal IT organization. In this interpretation of the model, the IT organization is, in essence, a supplier of services whose customers are within the same business or corporation.

Bottom up, top down: two approaches

Enterprises have taken two different approaches to managing supply and demand: “top-down” management of demand, and “bottom-up” management of IT supply.

In the “bottom-up” supply-side management model, IT organizations allocate their resources (labor, hardware and software) to the tasks assigned. They use managerial processes and automated tools to consistently track, measure and monitor work on new projects and the maintenance of existing systems. With this approach, IT focuses on delivering projects on time and within budget.

To manage this approach, many IT organizations have turned to Project Portfolio Management (PPM) and Application Portfolio Management (APM) frameworks, with successful results. According to a recent Gartner report, “Project and portfolio management systems continue to support the project life cycle, from portfolio management and resource allocation, to detailed project planning, and through to work execution, while also expanding their applications beyond the project portfolio to provide more planning and control of IT.”¹ Project Portfolio Management provides IT managers with a better understanding of the dynamics involved with a project, and enables the enterprise and individual business units to better communicate what they want from a project. Application Portfolio Management practices help to define life-cycle management decisions and potentially free up maintenance funds for future growth initiatives.

Meanwhile, other enterprises have taken a “top-down” approach to demand management for services from the IT organization. This approach drives decision-making from a business-priorities perspective. A top-down approach asks—and finds answers to—questions such as:

- What criteria should be used to decide which IT projects should be undertaken?
- How will the enterprise determine which projects or investments are strategically enabling business objectives?
- Which work requests do not support key business objectives and therefore should not be completed and allowed to consume IT resources?

To effectively manage business demand for large initiatives, a business case is usually required to establish business goals and identify requirements for a project or initiative. The business case helps both business and IT leaders prioritize proposed investments against enterprise objectives and current requests. This process helps identify projects most beneficial to the business, balancing the expected value of the product (the service rendered by IT) with the cost to complete it and the inherent risk. For daily work requests, a business case doesn’t need to be presented; however, these requests need to follow consistent business processes and decision-making practices, and should be tracked over time to analyze trends in business improvement opportunities.

¹ Gartner -Project and Portfolio Management Applications: Perspective, Dan Stang, April 4, 2006

“IT Demand Management is a critical success factor in building efficient and effective organizations. The relationship between IT investment and corporate financial performance indicates that market leaders have established successful demand management programs.”

SearchCIO.com, “IT Demand Management Key for Business Effectiveness,” Gates Ouimette, Dr. Richard Snyder and Marty Loughlin, InterUnity Group

Craig Symons from Forrester explains that “IT demand management is a critical IT governance process that extends beyond merely aggregating requests for IT resources and automating workflow.”² He further reveals that demand management can help organizations to:

- align the supply of IT resources to optimize business value
- influence and modify end-user behavior by providing meaningful information
- enable a more complete understanding of the costs and tradeoffs associated with the consumption of IT services and resources.²

Finding the equilibrium point

Both top-down and bottom-up approaches provide value to the organization, but neither addresses the IT supply and demand challenge on its own. In fact, the supply-and-demand equation—as far as it relates to understanding the interaction between business and IT—is often out of balance, leaving unanswered questions for IT. What happens to IT organizations and business units if demand for IT services is left unchecked? How can the value of IT products and services be communicated if there’s no common understanding of the costs?

The reasons for the imbalance are many. Organizations that focus solely on the supply side of the organization (control of the work and processes within IT) are often unable to demonstrate their alignment with business objectives and strategy. Without visibility into the cost of services provided by IT, the business often perceives IT as lacking value. Also, with this approach, IT focuses less on collaboration with the business and on trying to understand business objectives and priorities. This puts IT in a reactive position by addressing demand merely in a “tactical” manner—on a first-come, first-served basis; by responding only to the most influential business

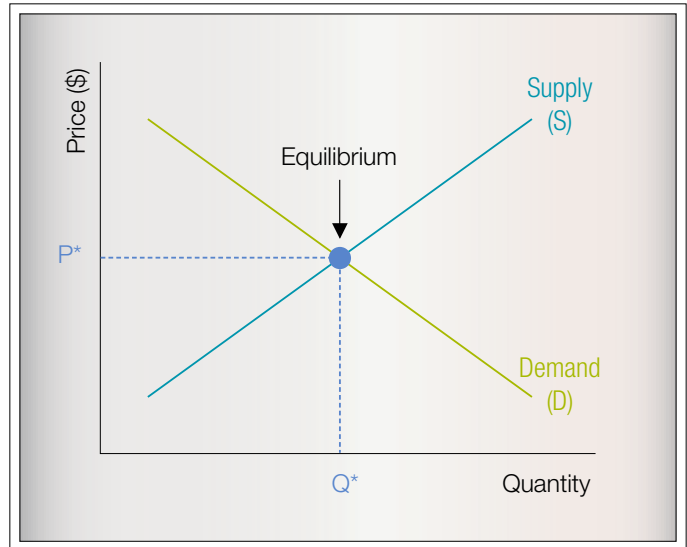


Figure 2: Equilibrium

leader or organization; or by using a resource-driven approach to drive decision-making. Also, technology is often “pushed out” by IT as a solution to business needs, but without business context. This adversely affects the credibility of the IT organization and its relationship with the business—making it even more difficult to establish appropriate dialogue around business priorities and decision-making.

On the other hand, IT organizations that concentrate solely on managing the demand being driven by the business have their own unique challenges. While these organizations have a better understanding of the needs and priorities of the business, without control over their IT processes, they are at risk for over-committing. They may agree to undertake projects that align with the business objectives, without knowing if IT resources are available to reliably deliver (on time, within budget, etc.).

Finding a balance between supply and demand is needed; otherwise, there will be inherent conflict, resulting in an inability of the IT organization to maximize business value.

Business-centric IT management: a balanced approach

By effectively managing demand from the enterprise and, at the same time, efficiently managing the supply of IT resources and services, IT’s contribution to the business is maximized.

It comes down to effective collaboration: the IT organization and the

² Forrester, “How IT Must Shape and Manage Demand,” Craig Symons, June 15, 2006

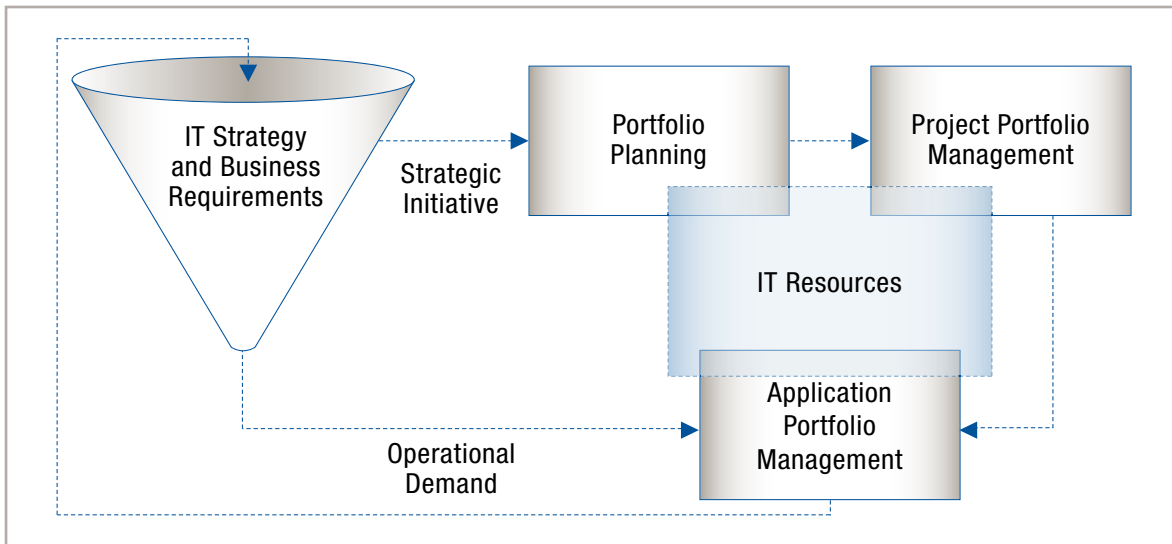


Figure 3: Compuware Changepoint—managing from decision to delivery

business working together to balance supply and demand. By leveraging collaboration at the right levels within the organization, both IT and the business can more effectively achieve their business goals.

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

“Splitting Demand From Supply in IT,” McKinsey & Company, 2006

To drive effective decisions, IT executives and their business counterparts need to define and agree on the key business processes and appropriate metrics to drive decision-making. A consistent and repeatable approach to evaluating and prioritizing investments enables effective decision-making and ensures alignment with business priorities. Understanding business drivers and client satisfaction is also crucial to increased credibility. The result of this collaboration is balanced criteria for decision-making—for both business units and IT.

By working to achieve equilibrium between demand and supply, requests for IT services become more manageable and predictable, while the supply of IT resources and services provides a greater impact on business outcome. This equilibrium provides increased value—both from an IT and business perspective. Through effective decision-making, collaboration and the efficient delivery of IT services, the IT organization gains credibility and the business is able to assess the true business value realized from IT— often for the first time.

Compuware Changepoint: helping balance supply and demand

Compuware Changepoint is a business-centric IT management solution that unlocks the potential of an organization to meet the needs of the business. Using Changepoint’s comprehensive approach to managing supply and demand, CIOs can deliver maximum business value through enhanced IT performance, realize an improved relationship with business leadership, obtain closer alignment of resources and activities to business strategies, increase responsiveness to changing business needs and more effectively manage across the entire IT portfolio.

Changepoint helps to manage business-driven demand by providing increased transparency into the requests and the resulting value being delivered by the IT organization. Through Changepoint’s financial management capabilities, this value can be communicated to line-of-business clients in relevant terms, providing closed-loop management of business demand—associating costs with the work delivered by IT. Changepoint also improves decision-making by enabling the organization to prioritize initiatives and resources to deliver projects that most closely align with business objectives.

Changepoint provides a sustainable approach to obtaining visibility and control across the range of IT activity. Understanding portfolio and performance metrics offers IT executives the ability to make more effective decisions regarding active projects. In addition, the usage, health and performance of applications can be tracked through Changepoint, allowing IT executives to identify opportunities to invest in, replace or retire applications and free up supply-side resources for future growth initiatives.

“An agreed-upon governance structure can help ensure a balanced portfolio, ultimately leading to the optimal mix of customer satisfaction and realizable benefits. These benefits can include reduced risks while, at the same time, providing increased spending effectiveness through transparency and an actionable understanding of IT costs and drivers. An overall improvement in business performance, directly correlated to IT investments, can therefore be achieved.”

Forrester, “How IT Must Shape and Manage Demand,”
Craig Symons, June 15, 2006

Conclusion

Achieving “market equilibrium” between the enterprise and the IT organization is not a simple goal—but it is one that, once gained, delivers significant benefits to the IT organization and the enterprise as a whole. Management information needed to achieve this equilibrium is only available by implementing an integrated solution that addresses both supply and demand. This provides IT with the ability to make better business decisions and communicate the value delivered back to business counterparts—ultimately driving business impact.

To learn more about Changepoint, visit
www.compuware.com/changepoint

Compuware products and professional services—delivering IT value

Compuware Corporation (NASDAQ: CPWR) maximizes the value IT brings to the business by helping CIOs more effectively manage the business of IT. Compuware solutions accelerate the development, improve the quality and enhance the performance of critical business systems while enabling CIOs to align and govern the entire IT portfolio, increasing efficiency, cost control and employee productivity throughout the IT organization. Founded in 1973, Compuware serves the world’s leading IT organizations, including 95 percent of the Fortune 100 companies. Learn more about Compuware at www.compuware.com.

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