



# Maturing Your Demand Management Practices

By Susan Cramm, Executive Coach  
President and Founder, [Valuedance](#)

The demand for IT resources appears to be immune from business and economic cycles as technology becomes embedded within every aspect of the business.<sup>1</sup> CIOs are finding it difficult to meet the increasing demands for technology given that resources available to fuel innovation are tighter than ever. This is due to global competition and the difficulty of managing operational costs associated with legacy systems and the buying frenzy of the late '90s. The impact of these trends on CIOs and their organizations is significant, as reflected in research identifying the top barriers to CIO success. Of the top 10 barriers, seven relate directly to the ability to effectively manage demand.

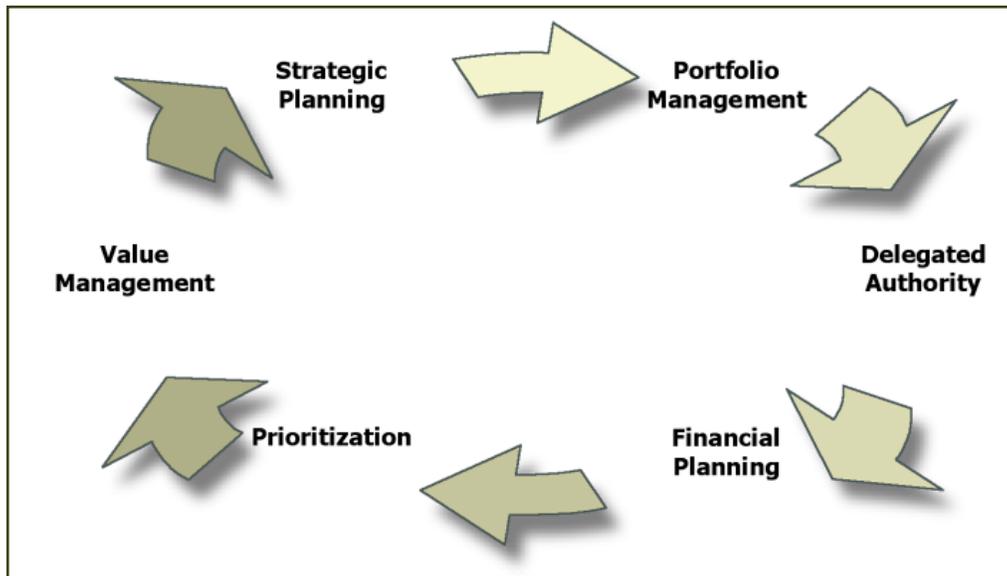
Demand management is defined as the process of allocating limited capital and human resources to the overall benefit of the enterprise while improving the relationships among IT and its business partners. When fully implemented, demand management provides executives the information and capabilities to understand IT costs, evaluate potential investments and convert IT-enabled investments into business results. In short, demand management ensures the right work gets identified, funded and done.

CIO Barriers to Success	
1.	Overwhelming <b>backlog</b> of requests/projects
2.	Inadequate <b>budgets</b>
3.	Shortage of <b>time</b> for strategic thinking/planning
4/5.	Unrealistic/unknown <b>expectations</b> from the business
6.	Lack of key <b>technical skill</b> sets
7.	Overwhelming <b>pace of technology</b> change
8.	Lack of <b>business knowledge</b> in IT
9.	Lack of <b>alignment</b> between business goals/IT efforts
10.	Difficulty <b>proving value</b> of IT

Source: *CIO Magazine's 2006 State of CIO Survey*

<sup>1</sup> *How IT Must Shape and Manage Demand*, Craig Symons, Forrester Research, June 15, 2006.

## What is the Cycle of Demand?



The six key mechanisms of demand management.

Demand management is a cyclical, reinforcing process that consists of six key mechanisms:

- **Strategic Planning** provides the prioritization context for all investments (including strategic fit, value, risk and architecture).
- **Portfolio Management** translates the strategy into investment categories (e.g., enterprise, business enhancements, maintenance and compliance); defines the targeted financial allocation, risk thresholds and return targets; and facilitates cross-organization project review.
- **Delegated Authority** defines the decision rights necessary to drive responsible IT demand decisions. A key principle is to drive authority to the lowest organization level possible while ensuring observance of portfolio, architectural, compliance and process standards.
- **Financial Planning** determines the amount of funding available for IT-enabled business investments and where to budget to stay in line with the strategic plan, portfolio targets and delegated authorities. In addition, financial planning determines the pricing of IT services and how other parts of the business will “pay” for these services.
- **Prioritization and funding** decisions occur across and down the organization (as defined by delegated authority) in line with criteria established during strategic planning, portfolio management and financial management.
- **Value Management** reinforces accountability for realization of tangible business impact by reviewing projections, ascertaining commitments, monitoring results and ensuring the ability to deliver on value commitments impacts future authority, investment decisions, budgets and compensation.

Without pricing and payment, “users have no incentive or information to manage their demand for IT resources.”<sup>2</sup> It’s important not to confuse pricing and payment with chargeback systems that typically result in mysterious charges on financial reports, calculated after the fact based on high-level estimates of usage. These chargeback systems do little to manage consumption and have the unfortunate side effect of negatively impacting IT-business relationships. Pricing and payment systems, on the other hand, manage demand by ensuring IT and the business 1) work together to forecast service consumption, 2) mutually commit to service levels and pricing and 3) calculate payments using actual usage and predetermined pricing.

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<sup>2</sup> *How IT Must Shape and Manage Demand*, Craig Symons, Forrester Research, June 15, 2006.

There is general agreement that IT demand management should encourage, rather than stifle, innovation through all levels of the enterprise. In response to the need to manage IT demand, many organizations have begun to engage the six key mechanisms of demand management, but to varying degrees. Depending on the level of demand management maturity within organizations, they may be, for example, using business cases to approve projects but just beginning to create formal IT strategies that can be used to put the business cases in context.

There are four stages of demand management maturity:

- **Reactive** - characterized by arbitrary spending levels and politically charged project-funding decisions.
- **Responsive** - introduces IT relationship managers to mediate the application planning and decision process using business priorities derived by IT from existing business plans and discussions with business leaders.
- **Aligned** - expands the role of relationship managers to encompass all IT services, integrates business and IT planning, provides full transparency of IT services and pricing, and establishes a decision and accountability process that provides business-unit autonomy while protecting the needs of the enterprise.
- **Enabled** - transfers primary responsibility for demand management to the business in order to increase innovation across and down the enterprise.

## Where are we now?

Most organizations today operate somewhere between the Reactive and Responsive stages of IT demand management maturity (see Exhibit 1). In the Reactive stage, IT demand is managed formally during the financial planning process and informally through the year on a “first-come, first-served” basis. Most CIOs in the Reactive stage have figured out how to get IT prioritization and funding decisions made—either by facilitating an enterprise IT committee or asking the CFO or COO to be the “bad guy.” While it may appear the winners in this stage are business executives who have large budgets

and political clout, the reality is that, in the Reactive stage, everyone loses:

- Business managers in the middle of the organization must put up with the process of lobbying for IT project funding and “one-size-fits-all” IT service levels.
- IT managers are inundated with requests for new projects and complaints about service levels. Regardless of effort, their performance falls short because a lot of requested projects don’t meet the minimum daily requirement for common sense and, as more and more money goes to projects, “keeping the lights on” services are chronically under-funded.
- CIOs are unable to demonstrate value from IT and, as a result, are constantly under fire to lower or justify costs.
- Companies are unable to leverage IT because they are focusing on mediating business-IT issues, working on too many IT-related initiatives, and trying to overcome application and infrastructure silos that have evolved over the years.

In the Responsive stage of IT demand management maturity (see Exhibit 1), IT develops a “bolt-on” IT strategy by facilitating discussions with other parts of the business. The strategy is useful in setting priorities that drive financial planning and priority-setting processes and, therefore, helps remove some of the politics from decision making. The enterprise IT committee has morphed into a combination of enterprise and business unit committees in order to delegate some authority and make the approval process more responsive. Business cases are used for approval, but not used to guide the initiative or ensure business-unit accountability for the results. Applications-oriented relationship managers are assigned to facilitate strategy making, financial planning, project approvals and monitoring, and issues resolution. While the approval process is more responsive and IT is getting on top of understanding project demand, the Responsive stage continues to be plagued with:

- easily overridden project prioritization, since the strategic plan is developed and owned by IT

- disconnection between IT investment and business return, since the business case justification is primarily a paperwork exercise
- under-funded, under-fire operational services, due to lack of formal service definition, disciplined processes and cost transparency
- infrastructure silos, since development is done in conjunction with projects.

## How do we move forward?

The challenge facing most IT organizations is how to mature their demand management practices, given where they are today. To identify how to move from the Reactive and Responsive stages, it's important to understand the hallmarks of the Aligned phase and illustrate necessary actions.

The Aligned stage (see Exhibit 1) requires that CIOs extend their demand management mechanisms to encompass projects, infrastructure assets and services. By doing so, it is possible to ensure important work gets identified (through strategic planning, portfolio management and delegated authority), funded (through financial planning and prioritization) and done (through value management). Following is a description of each of the six mechanisms within the Aligned stage of demand management maturity.

- **Strategic Planning:** While the “why” and “what” of IT strategic planning are still led by IT, planning is done in conjunction with the business along with the making of business strategy—across and at all decision-making levels of the enterprise. In addition, rather than focusing exclusively on applications, the joint planning process defines implications for IT services, and considers longer-term enterprise asset management and architectural goals.
- **Portfolio Management:** The portfolio becomes an important tool in the effective delegation of authority, since it allows senior executives to identify overlaps and relationships and vary portfolio targets (through changing innovation emphasis, risk tolerance and spending levels) by business unit and/or function with the assurance that the blended portfolio meets the overall needs of the enterprise.
- **Delegated Authority:** The relationship/demand managers now report on a solid dual-line basis—with the business executive responsible for the “what” of IT and the CIO responsible for the “how” of IT. IT and the business are jointly responsible for overseeing product and service performance and achieving targeted outcomes for projects.
- **Financial Planning:** Funding for enhancements resides in business budgets, but the majority of IT spending continues to reside within IT budgets pending financial systems’ capability to perform activity-based budgeting. In the interim, IT works with finance and the business to set consumption levels for services using a service catalog and pricing derived from analyzing historical costs using activity-based budgeting techniques.<sup>3</sup>
- **Prioritization:** Prioritization occurs within the context of the targeted portfolio using balanced criteria (costs, strategic fit, risk, returns) across the entire IT service catalog, including IT projects, products and services.
- **Value Management:** Other parts of the business take the lead on developing and presenting business cases for approval. Value targets for projects include operational and financial metrics used throughout the life cycle of the initiative to maintain focus, force learning and ensure realization of value. Staged funding is used to increase the pressure on proving value and mitigating risks early in the initiative. In addition, end-to-end service levels are defined, and performance is monitored and reported.

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<sup>3</sup> *Budgeting by Deliverables*, N. Dean Meyer, [www.ndma.com](http://www.ndma.com)

# Case study

In order to identify how to move to the Aligned phase, let's discuss the challenge faced by a mid-sized technology company. The CIO, Ron, contacted me when it became clear his project roadmap charts were a creative work of PowerPoint fiction. His application's relationship managers have addressed demand by stretching resources and timelines until the point that quality is suffering and milestones are being missed. Ron's success in strengthening relationships and effectively delivering has fostered high levels of demand for IT services that, if not brought under control, could paradoxically jeopardize the future success of his organization.

Let's review the IT demand management mechanisms in operation at Ron's company. Strategic planning is done informally by a few senior executives in the hallways and documented at a high level as part of the financial-planning process. The financial-planning process establishes how much money will be budgeted within each department for projects; infrastructure funding is included within application project budgets. Priorities for small projects are determined by functional IT committees while approval for large projects escalates to the COO and CFO. Business cases are developed but aren't used to guide projects, judge success and direct future decision making. Service levels, by and large, are not defined, and few operational measures exist.

Ron's demand management mechanisms suffer from: 1) a lack of perspective on IT's importance to the success of the enterprise, 2) premature delegation of authority to functional units given that "rules" governing responsible investing do not exist, 3) an application-centric view of IT demand management that treats infrastructure as an output and does not address IT services, and 4) inadequate measurement discipline and understanding of costs.

Going forward, Ron and his relationship managers should first tackle IT project demand. Ron should ask the CFO and COO to assume responsibility for overseeing the development of strategic IT priorities, allocation of funding and definition of IT investment rules necessary for effective delegation of authority. With sponsorship secured, Ron and his team should work with their business counterparts to derive the business strategy and a high-level view of the IT portfolio based on affordability, risk and return. Next, they should map the current projects against the IT strategies and targeted portfolio, categorizing projects as strategic,

business enhancement, compliance or maintenance, and identify fits, overlaps and misfits.

At this point, they will have aggregated and categorized project demand, and can recommend which projects to merge, redefine or kill. Ron should work with the CFO and COO to develop investment rules that call for, among other things, the approval and monitoring of strategic projects at the enterprise level. Some companies mistakenly establish spending-level authority based on project size (e.g., only projects over a certain size are reviewed at senior levels) only to discover that small- and medium-size projects proliferate. It is more appropriate to retain enterprise-level authority over projects deemed strategic or particularly risky and delegate authority over business enhancements to lower levels, subject to compliance with overall funding limits and adherence to standards.

Ron should organize a series of meetings for the COO and CFO to roll out the results of the planning, and ask function heads to work with relationship managers to review and reframe projects within the new context. Since plans have a half-life of months, not years, Ron and his relationship managers should establish a quarterly process of validating the strategy and target portfolio, ensuring functional projects are aligned, in compliance and progressing well.

Once project demand is under control, it's time to gain greater understanding of the costs of delivering IT services, using a technique called activity-based budgeting that maps historical costs to services and defines rates and units of consumption.<sup>4</sup> With services and costs understood, Ron should facilitate development of an infrastructure and operations strategy that results in reducing the technical footprint and the cost of delivering services. Armed with the strategy and understanding of costs, it's now possible for Ron to demonstrate opportunities to improve infrastructure and operational effectiveness and efficiency. During the next strategy iteration, Ron should propose infrastructure and operational investments, separate funding of infrastructure from funding of projects, and determine operational funding by forecasting consumption.

With these demand management capabilities in place, Ron can be assured IT and business agendas are in full alignment, the right work is done and the enterprise realizes value from its IT-enabled business investments.

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<sup>4</sup> *Budgeting by Deliverables*, N. Dean Meyer, [www.ndma.com](http://www.ndma.com)

## What's our long-term goal?

Although the Aligned stage results in comprehensive management of IT demand and provides significant benefits over previous stages, it should not be considered the end of the demand management journey. In the Enabled stage, businesses will not be constrained by the management bandwidth of relationship/demand managers to perform IT planning, envision IT possibilities, request services, oversee projects and implement IT-enabled change. Innovation and IT usage will accelerate because the business will assume primary responsibility for demand management and the IT-business collaboration will be focused on creating the future rather than aligning agendas. Instead of interpreting and mediating business needs to the IT organization, the business will focus its energies on defining and leading IT-enabled change.

In the Enabled stage of IT demand management maturity (see Exhibit 1), the business has developed or acquired the IT savvy necessary to determine which IT products and services are needed to enable business strategy. Once strategies are approved and portfolio targets are determined, funds for IT-related products and services are planned at the appropriate level in business budgets to align accountability with authority. Authority over IT-related funding is granted subject to adherence with rules that protect the interests of the enterprise (which are not always apparent at a business-unit, departmental or work-team level). For some services, such as help desk, network and simple product enhancements, the rules simply involve affordability. For other services, such as a request for a new product, the rules involve questions regarding the merits of the investment (strategic alignment and business impact) and the costs and risks inherent in the approach (architectural fit, legal compliance, business continuity, and resource and process quality). Service requests that comply with the rules get fast-tracked while requests for exceptions are delayed as they make their way up the organizational ladder for review.

The business is held accountable for realizing value from its IT-enabled expenditures using four mechanisms: 1) performance versus budget, 2) business performance versus goals, 3) process performance versus benchmarks and 4) impact of strategic initiatives versus stated goals.

IT has an outward-facing organization that ensures it's easy for other parts of the business to request products and services from it. IT relationship or demand managers provide planning assistance, help envision possible technology impact, analyze historical costs and set future prices, recommend the rules that govern responsible usage of IT products and services, assist in securing resources, and monitor and report on the performance of IT products and services as well as the impact of IT investments. IT pricing is established annually based on a detailed understanding of costs and competitive benchmarks. In the Enabled stage, financial systems have the capability of charging IT-related expenses based on actual usage (by applying activity-based costing techniques), thus eliminating the divisiveness associated with manual allocation and chargeback processes. And last, but definitely not least, the supply of IT human and technical resources can vary in satisfying demand through the use of external service providers and real-time infrastructures.

Demand management should be “primarily a business management responsibility”<sup>5</sup> since business leaders own the three P's of value realization—the process, the people and the P&L. The good news is “as business leaders have gained a greater understanding of technology's strategic impact,”<sup>6</sup> they are demonstrating a strong desire to take ownership for IT. Unfortunately, mechanisms that would enable business leaders to assume responsibility for IT demand management are not in place, so in the short to medium term, managing IT demand and making it top-priority rest on the shoulders of CIOs.

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<sup>5</sup> *Defining IT Governance: The IT Demand/Supply Model*, Michael Gerrard, Gartner, October 16, 2006.

<sup>6</sup> “Next-generation CIOs,” David Mark and Eric Monnoyer, *The McKinsey Quarterly*, July 2004.

## How can IT Portfolio Management solutions help?

Many CIOs are investigating the role of IT Portfolio Management solutions in support of demand management practices—a positive development, as these solutions are essential for success in demand management’s latter stages of maturity. We see their impact all the way from basic tracking of project progress in the Responsive stage through comprehensive tracking of realized value in the Enabled stage.

As I mentioned earlier, demand management is a cyclical, reinforcing process that consists of six key mechanisms. Using Compuware Changepoint® as an example, let’s consider how an IT Portfolio Management solution can help us carry out the six key mechanisms.

When we engage in the first key mechanism, strategic planning, it is important to prioritize all investments. Changepoint allows us to define key business criteria through which we can measure proposed IT investments, including strategic fit, value, risk and architecture. By automating this process, Changepoint ensures these criteria are applied consistently across all decision-making levels of an organization.

In the area of portfolio management, organizations can translate that strategy into investment categories such as enterprise, business enhancement, maintenance and compliance. The Changepoint solution facilitates cross-organizational project review, enabling organizations to accurately capture and identify candidates for investment. In addition, Changepoint allows IT executives to make decisions based on balancing risk, return and funding, ensuring their entire IT portfolios are balanced and aligned with organizational strategy.

When approaching our next mechanism, delegating authority, organizations need to define the decision rights necessary to drive responsible IT demand decisions. Changepoint enforces those decision rights by accurately identifying key stakeholders, and automating the decision-making and approval processes. Changepoint provides transparency into the process, consistently ensuring the right people are involved to facilitate approval at every stage.

Now let’s consider the fourth mechanism, financial planning. Financial planning capabilities within Changepoint provide visibility into funding available for new strategic objectives, allowing you to leverage financial allocation as key criteria around demand. Visibility into available funding allows you to leverage it actively in the decision-making process. This enables IT to stay in line with the strategic plan, and to more accurately forecast future spending and cost of services delivered.

When tackling prioritization of candidates for investment, Changepoint provides visibility across all the demand on IT—not just potential investments, but all the work IT is currently performing. Organizations can analyze alternate portfolios with flexible “what if” scenarios, making it easier to select and prioritize IT investments that best support business priorities and drive innovation, while balancing risk and value.

This brings us to our last key mechanism, value management. In most organizations, IT is taking responsibility to deliver effectively on these IT-enabled business projects. Because value management can have a great impact on the entire organization, the business customer also needs to be accountable for tracking benefits realized. Changepoint automates the process to ensure benefits are assessed and captured, which reinforces accountability for realization of tangible business benefits. Value and risk targets, set when the proposed investment is added to the portfolio, are critical in driving investment decisions. When executing a project, Changepoint automates process or reminders to collect information around the value realized, including both operational and financial metrics. Changepoint provides management with visibility to compare benefits realized for each investment to original estimates, as well as visibility when benefits are not being assessed. Doing so helps drive the value-management process, holding the business accountable to demonstrate benefits realized for each investment.

In short, IT Portfolio Management solutions like Changepoint can help an organization manage IT as a whole and maximize the value of its entire portfolio. Organizations that implement sound demand management practices, supported by portfolio management solutions like Changepoint, find they improve IT effectiveness across the board—from investment decisions to value delivery. Essential to the successful introduction of demand management practices is the evolutionary introduction of change—facilitated by flexible solutions that enable organizations to evolve their demand management processes to greater levels of maturity.

### **What else do we need to know?**

It's time for CIOs to be Chief Innovation Officers, implying an elevated level of focus, rather than Chief Information Officers. For too long, CIOs have relied on supply management constraints (e.g., financial and head-count constraints) to force IT priorities rather than explicitly addressing the demand management questions of strategic fit, risk and value.

CEOs want CIOs to help spearhead innovation efforts that support the external customer, facilitate horizontal information flows and processes, and enable rather than inhibit business change.<sup>7</sup> To do so, CIOs must mature their demand management capabilities so the resources available to fuel innovation are going to the highest level and best use.

The good news for CIOs is that focusing on demand management pays off. In the short term, increased interaction with the business will improve credibility. In the medium term, maturing demand management will remove barriers to success by increasing the understanding of business expectations, making sense of the backlog and linking IT investment to business impact. And in the long term, as the business assumes primary responsibility for IT demand management, IT will be able to solidify its position as a source for solutions rather than roadblocks. By partnering in the innovation process, IT will ensure its infrastructures and processes enable—rather than inhibit—change.

## **Biography of Susan Cramm**

Susan Cramm, the founder and president of Valuedance™, is a recognized industry expert on information technology leadership and has helped pioneer the field of IT leadership coaching. She has worked with executives from a number of Fortune Global 200 clients, including Toyota, Sony and Time Warner. A speaker at industry conferences, Cramm has authored *CIO* magazine's monthly "Executive Coach" column since 2000. Previously, she was CFO and executive vice president of Chevy's Mexican Restaurants. She also worked with the Taco Bell Corporation. Cramm received a master's degree in management from Northwestern University and a bachelor of arts degree from the University of California, San Diego.

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<sup>7</sup> *How CEO Concerns in Mid-2006 Are Shaping IT Agendas*, Mark Raskino and Jorge Lopez, Gartner, August 8, 2006.

## Exhibit 1: Demand Management Maturity Stages

	Reactive	Responsive	Aligned	Enabled
Benefit	None	Increased Business Focus	Increased IT Value	Increased Innovation
<b>Strategic Planning</b>	No formal IT strategy	IT application strategy developed after business plan	IT strategy developed along with business plan—IT-led  Infrastructure, Service and Asset Management strategy developed	IT strategy developed dynamically along with business plan—business-led  Enterprise IT strategy consolidated—IT-led
<b>Portfolio Management</b>	IT portfolio doesn't exist (no consolidated project repository)	IT application project portfolio defined (single project repository, key services defined)  Portfolio analysis initiated (strategic linkage, overlaps, risk)	IT portfolio classes and targets defined for all IT products and services  Portfolio used in prioritization and value management	IT portfolio adjusted dynamically based on changes to strategy  Service catalog is refined to include service tiers
<b>Delegated Authority</b>	Uneven delegation—too high or too low  IT RMs lead application groups  IT is accountable for results of IT-enabled business initiatives	Enterprise IT committee delegates authority subject to compliance policies  IT application RMs report to CIO	Business units have authority to increase or decrease IT expenditures  RMs have dual-reporting relationship  IT and business are jointly accountable	IT governance and RMs embedded in business governance  Business units can increase or decrease IT expenditures  Business units are directly accountable for results
<b>Financial Planning</b>	Funding by lobby or fiat; infrastructure funding in projects; operational funding squeezed to afford projects	Quasi-rational funding  Infrastructure funding justified by projects but managed separately; operational funding squeezed to afford projects  Business unit IT application project “checkbooks” are funded	Strategically derived funding  Infrastructure funding based on business case  Operational funding based on forecasted consumptions and rates determined by activity-based budgeting analysis	Strategically derived funding—dynamically allocated; functions and/or business units directly fund their IT expenditures; zero-based financial planning for all IT services and projects  IT P&L developed
<b>Prioritization</b>	Project approval by lobby or fiat  Cost-focused criteria	Formal project prioritization  Strategic fit and return criteria introduced but carry little “weight”	Formal prioritization of all IT projects, products and services  Balanced criteria (costs, strategic fit, risk, returns)	Streamlined, dynamic prioritization process (facilitated by the business)  Initial prioritization focused on strategic fit and returns (costs follow concept)
<b>Value Management</b>	IT completes business case developed for large projects but not used after approval  Few end-to-end IT performance measures formally tracked	Joint IT/business case developed for all projects  Value definitions expand to include operational metrics  Key end-to-end IT performance measures are tracked  Initiate risk and readiness assessments	Business develops business case with IT help  Value and risk measures used throughout project; end-to-end service performance is measured  Staged funding based on proving value and mitigating risks  Post audits performed with focus on portfolio return (80/20 rule)	Business develops business case  Business units and/or functions are accountable for demonstrating value—impacts future financial and operational goals  IT portfolio returns are calculated at enterprise and business unit and/or functional level