it management *select*

Authors

Frank de Vries, Roelof Douwstra
and Paul Tjia

	Business	Information systems	Technology
Strategy			
Organization		■	
Operation			

Plenty of work for demand supply organizations

ABSTRACT

Demand supply organizations, those who serve as intermediaries between those that require and those that provide IT services, will be in high demand over the coming years. These organizations are needed to direct the providers properly while also mapping the needs of customer organizations more professionally. The latest trends include outsourcing the internal demand supply organization as well as offshoring tasks such as infrastructure management, application management and development to an external party. These processes all require attentive direction; in other words, there is plenty of work for the demand supply organization.

Many IT directors are currently wrestling with the question whether IT outsourcing in recent years was successful after all. The immediate cause being the large amount of recontracting as announced for 2007. Why is there so much dissatisfaction about current IT outsourcing and are those internal and/or external IT suppliers really the only ones to be blamed?
It appears that directing such outsourcing relations is a trade in itself, and customer organizations often make their own blunders as well. With great effort, many organizations have managed to set up an internal demand supply organization enabling them to direct the internal and external providers professionally. However, in 2007 the demand supply organization that acts as intermediary between those that demand and those that provide IT services will be high on the agenda once again.

Going East

Meanwhile, the focus of outsourcing in the Netherlands does increasingly broaden towards outsourcing of application development and application

management. Also because of labour shortages – certainly with regard to new technologies – this increasingly involves using facilities in Central and Eastern Europe and Asia. The offshoring market in the Netherlands currently has a volume of over 400 million Euros per annum and is as yet dominated by India. Following ABN Amro and ING, the Rabobank has recently announced that it will collaborate with India on a large scale. We also see that smaller businesses have started to have IT projects executed abroad. The most popular choices as far as they are concerned are the nearshore countries (Central and Eastern Europe). However, the work also goes to many other destinations, including Argentina, South Africa, China and North Korea. It is therefore expected that offshoring will grow many tenths of percents in 2007.
In outsourcing, the demand supply organization supports the company's management as well as its IT management by means of (for example) intelligent procurement, and it monitors the provision of IT services and products by providers. Directing of offshore service provision is in that case more intensive than directing locally outsourced services and

Demand supply organization should focus more on demand side IT services

the corresponding contracts. With regard to offshoring, organizations have to reckon with minimally doubling the costs for directing as compared to outsourcing to local partners, where the costs for directing amount to about 5 to 7 percent of the value of the outsourcing contract. Insufficient attention to direction may result in the intended cost abatement not or insufficiently being achieved. Apart from attention to more intensive transfer of knowledge, differences in culture and time and legal challenges (intellectual capital, privacy legislation, tax law, labour law) it is recommendable to enter into good commercial and managerial agreements concerning the services to be provided. By definition, there are

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Directing offshoring application development

About 36 percent of the total offshoring market volume in the Benelux is spent on application development. Experience figures teach us that the outsourcing of application development (offshore) can save up to as much as 45 percent in development costs. However, outsourcing organizations do have to deal with the fact that there can be large differences in tariff between the providers of offshore services in different countries.

- Commercial agreements
  When outsourcing application development, it is often unclear what the scope of the outsourced IT services is, certainly when this involves several iterative development projects over a number of years. However, even in the case of a specific project, the width (the demarcation of scope) and the depth (the details within the scope) do not become entirely clear until execution has actually commenced. Just the same as outsourcing to local West-European providers, it is difficult to agree on a comprehensive price mechanism for application development. Various different alternatives are available. Examples are:
  1. A fixed sales price coupled with a development approach in which possible priorities are set to the functionalities to be yielded (maximized by the available budget);
  2. Development based on a price per function point, price per (R)UP use cases or lines of code;
  3. A combination of these.
     Given the advantage with regard to costs, we also see that outsourcing organizations are increasingly more willing to come to agreements based on subsequent calculation. In doing so, they make use of function profiles that are linked to a ratecard that is determined in advance, as well as discounts. Sometimes outsourcing agreements are structured such that a bidding mechanism ensures that offshore providers in competition have

to bid on part of the services, thus guaranteeing market conformity for the outsourcing organization during the term of the contract. However, in doing so additional agreements are entered into with regard to guaranteed returns, meaning that the providers also remain motivated for bidding on the service provision.

- Directability service provision
  In order to keep application development controllable in case of offshore outsourcing, it is necessary to come to concrete agreements. It is for instance necessary to give interpretation to a thorough project plan so that thematic modifications can be implemented in a controlled fashion. In addition, it is necessary to agree on transfer and acceptance of intermediary products and end products, as well as the way in which source code and specifications are delivered and are transferable. Client and provider should have the same univocal image of the division of their responsibilities within the development process using for instance the traditional waterfall method or an iterative approach such as (R)UP, DSDM or RAD. Furthermore, it is advisable to indicate which operational project templates will be used and how project progress will be reported. This should also include the acknowledged project risks with corresponding mitigating measures.
- Additional in offshoring
  In offshoring, one should even more specifically look at the way in which the project organization is designed, as compared to local outsourcing. In particular, the physical distance and time differences to the offshore team make coordination and communication awkward. This is often actively anticipated by setting up a hybrid project organization, in which employees of the contracting provider at the location of the customer (onshore) form a bridge to their colleagues (offshore).

discerning differences between directing application development, application management and infrastructure services. With regard to offshoring this is added to by a number of points of particular interest as compared to outsourcing of IT services to local providers. For example, one has to make extra sure that the proposals as offered are inclusive of travel expenses, translation costs, indexation and data communication. These debit entries can influence business cases for offshoring rather negatively.

Cost abatement

Reports show that between 2000 and 2005, economic circumstances were deteriorating which led to both businesses and authorities strongly focusing on cost abatement. For that reason consolidation and standardization of the IT structure are important points of particular interest, especially in large organizations. In order to conclude these large-scale IT projects favourably, an increasing number of companies called in specialised partners, who were ultimately put in charge of management. Therefore, outsourcing became increasingly more popular. In many businesses, this has led to introduction and interpretation of a relatively new organization: the internal demand supply organization, which specifically targeted the direction of external and – sometimes – internal providers.

This intermediary organization supports the company and IT management with intelligent procurement and monitors the provision of IT services and products that are provided by internal and external parties. After the actual outsourcing, the directing organisation monitors the operational provision of services based on services reports, supplemented with periodical audits. For many organizations, outsourcing was the immediate cause for giving an interpretation to such an internal demand supply organization. Examples of this are the DICTU of the Dutch ministry of Defence (because of whose successes one particular outsourcing fore example never happened), the demand supply organization at the Dutch ministry of VROM (Housing, Town and Country Planning and the Environment) and the transnational vendor management organization at the ABN AMRO bank.

However, in spite of that, the satisfaction of the users in many outsourcing relations often decreased and the intended cost abatements were insufficiently realized. One appeared to be unable to put the demand of divisions and staffs rigidly at internal and external IT providers, in spite of the foundation of a demand supply organization that professionally directs these providers. Because of the proliferation of varied requirements from the business environment, the standardization of products and services as realized proved to be impossible to maintain. All this, whilst this standardization was in fact in many cases the foundation underneath the intended savings.

Demand direction

However, since the end of 2005 the economical circumstances have vastly improved. Recent research shows that cost abatement is still the main reason for some parts of IT activities within a company taken care of by an external supplier. Nevertheless, the focus of outsourcing does increasingly broaden towards application development and application management. Today, the demand side also has to assist in innovation of management as well as making this more flexible. Given past experiences, there is an increasing wish to professionalize the IT demand direction further in order to prevent new proliferation and univocally and durably direct the supplier.

Apart from directing internal and external providers, the internal demand supply organization should therefore today also target the professionalization of the demand direction from the business organization (divisions and staffs). Demand direction means the defining, attuning, combining of and making decision about the combined demand of the business environment before this is outsourced at the internal and/or external supplier. Apart form directing and managing providers both at policy as well as executive level, today's internal demand supply organization therefore supports business organizations at specification and prioritizing of clients requirements. In addition, these are translated into service requirements and responsibility is shouldered for the evolution of the IT services as offered. In doing so, a translation takes place towards the desirable service portfolio and the ultimate IT provision. This is a next stage of maturity in the direction of demand and provision of IT services.

Many organizations experience a weak link, especially at the demand side: lack of professional cus-

tomership. The lack of this is the ignorance of customer organizations to specify and prioritize their demand such that this subsequently, via the internal demand supply organization, can be put univocally to an internal or external supplier. Demand direction, product innovation and the implementation of changed laws and legislations are simply different themes than the implementation of a cost abatement. Combined with the expected large amount of re-tendering in 2007, these are immediate causes for reconsidering the responsibilities and competencies of the internal demand supply organization.

Co-sourcing

At this reorientation of the internal demand supply organization, being the intermediary organization between demand and supply, there is currently an interesting trend visible in the Netherlands. Organizations and government agencies are having a crack at the possibility of outsourcing the 'internal' demand supply organization to an external partner as well. The exposed weak link, the pressure of time and the lack of competencies were for example the immediate cause for two Zelfstandige Bestuursorganen (autonomous administrative authorities or ZBOs) for starting a European tender in 2006 for professionalization and operational execution of intermediary direction. The real objective was to be able to do this ultimately in-house. In order to realize this, a model of co-sourcing was chosen in which the internal demand supply organization is result-oriented outsourced to an external organization, whilst the staff is partly made up of internal personnel. The defined objective being that the demand supply organization once professionalized and set up, is in time handed back to the outsourcing organization.

There are a number of advantages for the outsourcing organization with regard to this co-sourcing model:

- Dependence on external parties is minimised. Ultimately the own staff will also have knowledge and expertise regarding directing.
- By means of immediate interpretation of a demand supply organization using the cooperation of internal employees, the outsourcing organization is able to immediately address important issues and changes and implement changes over the coming years using the knowledge, expertise and experience of the co-sourcer. Therefore, results are achieved quickly and noticeably.

- The new method of working (demand articulation) makes new demands on divisions and internal/external providers. The practical, concrete way in which the demand supply organization is staffed means that the desired change will indeed take place instead of only interpreting policy plans, programmes and direction models with policy. Therefore, the so-called ZBOs have deliberately chosen the 'doe-variant' (active variant). Of course, testing/designing of the directing model is on the agenda: yet as a means not as a goal.

Precondition

Precondition with regard to a model of co-sourcing is that the organization to which the direction is outsourced does itself not actively provide – or wishes to provide – operational IT services to the customer organization(s). The reason being, that this would jeopardize the independence and professionalism, in other words a division of customership and providership.

In short, over the last few years many organization and government agencies have – sometimes the hard way – learned how to direct commercial outsourcing relations (the supply side). Over the coming years, the demand supply organizations as set up will have to focus additionally more on the demand side of IT services in order to remain actually successful. Directing over demand directing and addressing innovation through market dynamics or changing laws and regulations are simply different themes than directing commercial providers from an outsourcing contract aimed at cost abatement. Combined with the expected large amount of re-tendering in 2007, these are immediate reasons for reconsidering the responsibilities and competencies of the demand supply organization. A co-sourcing model could possibly assist in all this.

Directing function

The setup of a demand supply organization does not necessarily result in the setup of a new division, staff organization or department. Determination of the correct setup of the directing function is subject to a number of contingency factors related to environment and situation: The customer organization and the impact of the external dynamics on its management, the directing model of the business and IT organization, the tasks set for the business and IT organization, the tasks set for the directing function, the service provision and contracts portfolio. The combination of these factors determines which type of organization is most suitable for the directing function. The processes of the directing function can be put out in an organization in various different ways:

- The processes can be set up or improved within the existing organization: the hidden directing function;
- It is possible to set up a separate organization in which all strategic, tactical and operational processes with regard to information provision are combined and executed: the demand supply organization;
- a hybrid is selected for the strategic, tactical and the operational process set-up in the partly existing and partly new organization: the hybrid demand supply organization.

Directing offshoring infrastructure management

About 15 percent of the total offshoring market volume in the Benelux is spent on infrastructure management. This percentage is slowly on the increase: increasingly more Indian providers are making headway in Europe. These providers for example set up computer centres, which locally hardly need any staff for carrying out daily management (darkroom). This way, offshore providers are able to carry out remote management and utilize their relative cost advantages. Experience figures teach us that offshore outsourcing of infrastructure services can result in savings of up to 30 percent in management costs.

- Commercial agreements
  The available price mechanisms for offshoring are comparable to those in the current local market: fixed prices for the total in IT services, but also prices per unit (for example per server, database, gigabyte storage, workstation). When comparing costs, outsourcing organizations should pay particular attention to the costs of data communication with regard to remote management. This predictable debit entry should be included in the business case.
- Directability service provision
  In order to keep infrastructure management controllable in offshore outsourcing, it is necessary – just like in local outsourcing – to come to concrete agreements about the (quality of) services. Examples of this are service level agreement(s) and a products and services catalogue that is to be benchmarked. It is also sensible to agree on the ownership and the topicality of the Configuration Management Database (CMDB). Periodical invoicing often takes place – especially in the case of prices per unit – on the basis of data in the CMDB. Furthermore, it is necessary to interpret a controlled change management procedure, the services transition plan (from outsourcing organization to provider) and a procedure for benchmarking and audits. In all this, it is advisable to come to agreements on financial settlement after the results of the benchmark/audit have become known. It is also necessary to come to regular directing agreements: who talks to whom, when and what do they talk about.
- Additional at offshoring
  Given the fact that the lead time of infrastructure outsourcing agreements is usually longer as compared to application development it is advisable to carry out a geopolitical analysis as part of the provider selection process. There are namely big risks involved: disruptions in the infrastructure could put the operational management at immediate risk. With regard to this, think for instance of the sometimes mounting tension between India and Pakistan.

Directing offshoring application management

About 28 percent of the total offshoring market volume in the Benelux is spent on application management. Experience figures teach us that outsourcing of application management (offshore) can save up to 45 percent in management costs.

- Commercial agreements
  The available price mechanisms for offshoring are comparable to those in the current local market: this often concerns fixed prices (budget funds) for the total in application management, possibly supported by univocal function profiles linked to daily rates that are included in a ratecard. In addition, discount prices and a no-claim discount system are often included in the outsourcing agreement in order to be able to provide the business relation proactively with financial incentives.

- Directability service provision
  In order to keep applicative management controllable in offshore outsourcing, it is necessary – just like in local outsourcing – to come to concrete agreements about the (quality of) services. Examples of this are inclusion in the contract of service level agreements, disaster-recovery plans, maintenance and improvement plans and customer satisfaction measurement. Besides, controlled modifications need to be implemented (change management process) and agreements have to be concluded on the management of the outsourcing relation and the updating, delivery and acceptance of the user documentation.

- Additional at offshoring
  If the execution of the IT services requires a lot of business knowledge such as in application management, then this will demand more consultations with the outsourcing organization as compared to purely technology driven services. Obviously, providers from offshore countries can also acquire the business knowledge. However, this knowledge should be supplemented with company specific information, which during the term of the contract is subject to changes. Intensive communication and exchange of experiences at the location of the customer is therefore advisable. Offshore outsourcing of application management demands (temporary) local presence of employees of offshore providers. It may also be useful with regard to the required transfer of knowledge and cultural know-how to have one's own employees travelling to the offshore country on a regular basis. Outsourcing organizations should once again think of the geopolitical analysis during the selection process to be carried out.

About the authors

Frank de Vries MBA (f.de.vries@quintgroup.com) and

Roelof Douwstra (r.douwstra@quintgroup.com) are both partners at Quint Wellington Redwood.

Drs. Paul Tjia is managing director of GPI Consultancy (info@gpic.nl).

SOURCE

This article is based on the following articles:

Douwstra, R and F. de Vries. 'Regie-organisatie krijgen het druk in 2007'. *Automatisering Gids*, no 44, 3 November 2006.

Vries, F. de and P. Tjia. 'Over regievoering van offshore-uitbestedingen'. *Automatisering Gids*, no 8, 23 February 2007