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YOU REDUCED ADM COSTS

Now What?

Doug Bunch, Director, ISG

INTRODUCTION

Reducing ADM spend is a priority for most CIOs. But cost cutting alone doesn't provide a sustainable approach for optimizing the effectiveness of the application portfolio investment. As a result, top-performing businesses are focusing on the "demand" side of the supply and demand equation.

Most outsourcing service providers implement a demand management process in their approach to service delivery, resource management, cost reduction, and process and productivity improvement. But simply deploying a process isn't enough. An effective approach to demand management is characterized by an investment mindset, alignment with business strategy, and careful oversight of current and planned ADM spending.

CREATE AN INVESTMENT MINDSET

An effective application portfolio demand management strategy often requires a change in mindset, so that the cost of sustaining and enhancing applications is viewed as a financial investment in a critical asset rather than as simply an expense. To achieve this shift to an investment mentality, involving and securing the support of key business stakeholders is essential. If the business views the services provided by ADM as "free" they will not be motivated to make the difficult and necessary prioritization decisions on how to allocate the ADM budget. In a "free" services environment, the lack of constraints on consumption typically leads to sub-optimizing decisions, over-commitment by the IT organization, and missed ADM service levels.

If prioritization defaults to IT, misalignment between the ADM spending and the business strategy is inevitable.

Moreover, if prioritization defaults to IT or – worse – to a "squeaky wheel gets the oil" approach, misalignment between the ADM spending and the business strategy is inevitable. One way to ensure that business stakeholders feel a level of accountability for the ADM budget is through a chargeback system, where the cost of ADM spending on Sustain, Enhancement and Major Project work is allocated back to the business units.

INVESTMENT PLANNING

A planning process is also important to drive the change to an investment mindset. Key components of the investment process should include:

1. Investment Board to plan/approve the overall investments, make cross-portfolio decisions, and monitor results.
2. Portfolio Councils to manage demand by prioritizing business needs related to their components of the portfolio.
3. Application or Product Managers to development business justifications and prioritize resource demand at the application level.
4. Application or Product Roadmaps to outline the three-year plan for ADM support of the application. This roadmap is based on decisions made when defining the application investment strategy and requires the business to accurately forecast their IT needs.
5. Business justification model, which includes financial hurdle targets (e.g. Return on Investment, Net Present Value) that Enhancements or Major Projects must meet for consideration and prioritization.

While IT can be a trusted advisor and driving force in this organizational mindset change, the process cannot be accomplished in a vacuum, and requires cooperation and participation and commitment from IT, key business stakeholders, and suppliers.

An application portfolio investment strategy built on the business strategy is key to gaining control of spend on an ongoing basis.

APPLICATION INVESTMENT STRATEGY

Not all applications are created equal and application spending should reflect the differences in importance to the business.

An application portfolio investment strategy built on the business strategy is key to gaining control of spend on an ongoing basis. Misalignment will result in under delivery by ADM, business dissatisfaction and conflict with IT, and decreased value of the ADM portfolio.

An investment strategy should outline the target spending of the ADM budget for the major activities. An example would be:

1. 70% of the ADM budget will be spent on major projects.
2. 30% of the ADM budget will be spent on minor enhancements and sustain activities.

Once the investment strategy is determined and the percentage targets approved, periodic checkpoints on the actual spend – coupled with feedback to the Investment Board – enables demand management for each major ADM activity.

Stratifying the portfolio allows spending on each application to be targeted. Applications can be divided into categories that dictate different investment approaches, including:

1. Competitive advantage applications that bring immediate value to the business.
2. Strategic applications that have a longer life expectancy, where enhancements and upgrades to the next version will be the focus.
3. Applications with similar functionality that become candidates for sunset or merging functions with more strategic applications.
4. Applications whose functionality will be replaced or is no longer needed.

Once the application portfolio is stratified, ADM budget allocation decisions can be made. These can include:

1. Competitive advantage applications can receive business stakeholder investment for additional functionality or new versions. In some instances, this investment can exceed the ADM budget.
2. Strategic applications with a long life expectancy should receive the primary focus of the ADM budget for investment.

3. Some applications are worth a small to medium amount of enhancements.

- Based on strategic value and life expectancy.
- Based on the business process supported.

4. Some applications are only worth a minimum of support, such as repairing Severity 1 and 2 defects.

These allocation decisions facilitate prioritization by defining how much can be afforded in each category. In other words, based on the allocation decisions, some requests may be rejected in favor of higher-priority needs.

WHERE ARE THE ADM DOLLARS GOING?

Understanding *actual* spend on Sustenance, Enhancements, and Major Development projects – as opposed to *planned* expenditure – is essential.

Without an ADM cost-tracking process in place, companies often spend more than planned on Sustain efforts, or on initiatives that yield a low return on investment.

Without an ADM cost-tracking process in place, companies often spend more than planned on Sustain efforts, or on initiatives that yield a low return on investment. Drivers of unanticipated costs include responding to business owners' ad hoc demands for more attention, developers working on "stealth" efforts that fly under the radar, and many others. As a result, the ADM organization is unable to fulfill its value proposition to the corporation, which is to increase spending on new and improved functionality for strategic applications, and to decrease spending on sustaining non-strategic applications.

Effective ADM cost tracking requires a labor recording system that identifies how much time is spent on the various categories of work, such as break/fix, small enhancements, large enhancements, major development, etc. Moreover, accurate labor recording aligns ADM spending with the application portfolio investment strategy – first of all, by ensuring that adequate labor resources are allotted to top-priority applications; and, conversely, by preventing an inordinate level of resource being poured into low-priority applications.

KEY COMPONENTS OF DEPLOYING DEMAND MANAGEMENT

Effective demand management is characterized by the following:

1. Well-defined roles and responsibilities for all participants, including IT, suppliers, and the business stakeholders. This will help to drive accountability throughout the organization.

2. Consistent utilization of the demand management process across the enterprise. Inconsistent use in parts of the organization will lead to value leakage. The ADM staff must be trained on why the process is important and how the process steps work. They should be process advocates and act as the front line for process compliance with suppliers and the business.

3. Both centralized and decentralized decision making. Centralize the decisions for the larger investments that will have a greater impact on the business and on the ADM budget. Decentralize the decisions for the smaller investments and allow for "emergency" decisions requiring rapid responses.

4. Business involvement in managing the demand and prioritizing the spending of the ADM budget.

5. Discretionary ADM work should be approved by the business before work commences. The approval process can be streamlined by including provisions for pre-approval of some discretionary work, typically bounded by size and the nature of the work.

6. A common estimation model or a consistent set of estimation models used across the organization. This will enable more reliable prioritization and more effective "go, no-go" decisions when evaluating requests for ADM work.

7. Periodic reviews of results. This gauges process effectiveness and to ensure the business is receiving the intended value from the ADM budget. The Investment Board should receive reporting and measurements to monitor results and track any deviations from the targeted investments.

A successful implementation of an integrated, strategic Demand Management process can pay significant dividends by maximizing overall ADM investment decisions.

With highly competitive markets, greater need for application flexibility and functionality, and increased pressures on the bottom line, optimized value from ADM spending is imperative. While deploying Demand Management requires effort and some significant changes in the organization, a successful implementation of an integrated, strategic Demand Management process can pay significant dividends by maximizing overall ADM investment decisions.

ABOUT THE AUTHOR

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DOUG BUNCH

Director, ISG

Doug brings clients more than 30 years of IT leadership in ADM delivery, global resourcing and delivery, design solutions, and transition and risk management. His clients span a wide range of industries around the world, particularly in Europe, South America and Asia. He backs his strategy, transaction and transition knowledge with practical experience. With his reputation as a troubleshooter, he has taken on troubled projects and reversed the trajectory of unprofitable contracts, saving his clients millions of dollars. Doug holds a degree in accounting and is certified in ITIL v3. His work in predictive analytics with a team of business owners and engineers resulted in two U.S. patents.

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