

Commentary

IT Services Contracts — Demand Management Plan

Most SR/SP relationships manage demand as a reactive response to changing business conditions, which can strain the relationship and fail to deliver required business value. Demand needs to be managed in a proactive, dynamic way.

A demand management plan is a critical element in a service contract; however, it is often excluded from the agreement. Enterprises believe they cannot predict future demands, so they include little about the ongoing need to manage demand. External services providers often take the absence of demand language literally and are not prepared to work with enterprises to dynamically manage demand.

Purpose

A demand management plan is used as a tool to project demand for future support and forecast the resources that are required to fulfill the demand. It is not a firm statement of requirements; rather, it is a guide for the service recipient (SR) and service provider (SP) to use for future planning. A demand management plan:

- Lays out the processes the SR and SP will use to plan and resource work
- Defines the processes the SR and SP will use to prioritize changes and modify the volume, type or level of service to match evolving user requirements
- Identifies the inputs and outputs that drive SR demands and SP responses to those demands
- Documents the assumptions that are used to develop the forecasts
- Provides the processes used to obtain end-user feedback on the SP's delivery of services that are provisioned to meet new demand

Importance

The technology service environment evolves rapidly, and enterprise business conditions often require a fast response by SPs to deliver new services or modify current services. A demand management plan is an important part of a service contract on two key fronts:

- Forecast near-term needs. An enterprise alerts the SP to resources that may be called upon after the agreement is executed, core services are implemented and operations are stabilized. In a perfect world, forecasts about near-term demands would materialize as projected and the SP

Gartner

would be prepared to supply the resources required, at the exact time those resources were required. In reality, demand often tracks loosely with forecasts and, less often, it never materializes. However, by stating the projected demand and the assumptions that drive the forecast, the SR and SP can plan accordingly, monitor business conditions and dynamically manage demand.

- Define the processes that will be used by the SR and SP to define requirements, prioritize initiatives, prepare and approve schedules and cost estimates, and manage the implementation of new or modified services to meet ongoing demand. The demand management plan should be used by the SR and SP to obtain feedback on the quality, timeliness and efficacy of the services delivered, from the end user's viewpoint, to ensure that demand has been met.

Because demand management has direct bearing on the relationship between the SR and SP, it is important to ensure there is a linkage between the demand management plan and the relationship change plan (see "IT Services Contracts — The Relationship Change Plan," COM-14-2688).

Structure

- SR demand forecasting process
- SP demand forecasting process
- Joint (SR/SP) demand forecasting process
- Assumptions made and process for updating the key assumptions that affect demand
- Internal and external business, technology and market drivers that affect demand
- Prioritization methodology for current and future demands
- Process for scheduling, costing and modifying agreements
- Process for obtaining and assessing end-user satisfaction

Examples

A demand management plan should be used to proactively monitor and plan for new or modified services that are already within the SP's portfolio of services. Therefore, a demand management plan should align with the service areas that are included in the agreement with the SP. For example, a full-service outsourcing agreement might include a potential demand for the SP to provide additional infrastructure or distributed computing services, while an applications outsourcing agreement might include a potential demand for the SP to take responsibility for new applications and application enhancements from a more-extensive user base than what is included in the original agreement.

A demand management plan typically will be more prominent in an agreement for long-term outsourcing services than it will be in a consulting or systems integration contract. The outsourcing agreement will be signed to provision services to the enterprise over several years, requiring the SP to accept new work, cease some work and change its delivery of other work. Furthermore, the long-term outsourcing agreement is likely to include demand because of changes in size (as in volume related to the growth of the enterprise) and complexity (as in new services that were not anticipated, but track closely to the SP's scope of work). The consulting or systems integration contract, although requiring the SP to respond to evolving demands, is generally tied more to a defined statement of work for a specific business or technology initiative. The demand in either of those scenarios is often bundled with requirements management, making the formal demand management plan a worthwhile tool to facilitate planning and prioritization.

Bottom Line: Demand must be managed proactively and dynamically for the SP to be in a position to respond with service value. A plan that identifies near-term demands and defines the processes for managing future demands helps ensure that the SP will deliver value to the enterprise and strengthens the SR/SP relationship.