

Service Level Agreements

What They're Comprised of, and Why They're so Critical



At a Glance

The service level agreements (SLAs) that your organization institutes can have a direct, and long-lasting impact on your business' prospects. Effective SLAs can help win new business and improve customer retention. The lack thereof can lead to inefficiency, financial exposure and customer defection. This brief offers an overview of SLAs, outlining why they're so important, and detailing some of the key attributes that make for an effective SLA.

SLAs: Definitions

An SLA is a contract between a customer and a service provider that outlines the performance the service provider will guarantee. For any offerings a customer chooses from the vendor's service catalog, the service provider should specify the service levels the customer can expect. The SLA is the binding commitment to deliver those services at the specific level that is contracted.

Practically speaking, the SLA is written as a schedule or addendum to the customer contract. Often, it is advisable to present the SLA during the sales cycle and to discuss the proposed agreements at a high level early on in the sales process. SLAs represent a good source for discussion, as their formulation is based on the capabilities of the business. Discussing these capabilities in the context of SLAs allows the provider to have an in-depth conversation about operations, service delivery models and account management. All of these areas need to be clearly defined to sell and deliver services effectively.

Criticality of SLAs

In our work with service providers around the world, we see again and again that the organizations that take the time to develop

concise, effective SLAs are those that are most successful. Why are SLAs such an important success factor?

When customers sign up for your outsourced IT services, they're entrusting the ongoing operation of vital business processes to your organization. SLAs are a vital way for these customers to get assurances that they'll be able to rely on your business to deliver the service levels that are required. SLAs also serve an important role in helping advocates within the customer organization to demonstrate to their management the value you provide.

A well designed and implemented SLA strategy is a critically important asset to the service provider. Those organizations that take time to develop effective SLAs can significantly boost their odds of success. Those organizations that don't develop detailed SLAs tend to be "winging it", operating in a less formalized, structured manner or adhering to a convoluted set of inconsistent agreements. These scenarios are fundamentally at odds with standardization, repeatability and consistency—characteristics that are the hallmarks of a successful MSP business.

SLAs: Key Components

Following are more details on some of the specific efforts and characteristics that go into SLAs.

Service Level Targets

The SLA is a compilation of all service level targets for a given customer. Service level targets are specific, measurable characteristics of the SLA, and can include measurements relating to availability, throughput, frequency, response time, quality or quantity. According to the Information Technology Infrastructure Library (ITIL), service level targets should be "SMART"¹:

- **Specific.** What exactly is the service provider going to do and for whom?
- **Measurable.** Is the target quantifiable and can it be measured?
- **Achievable.** Can the target be achieved in the proposed time frame?
- **Relevant.** Will the attainment of this objective have an effect on the desired goal or strategy?

¹ ITIL V3, "Glossary of Terms, Definitions and Acronyms", http://www.best-management-practice.com/gempdf/itil_glossary_v3_1_24.pdf.

- **Timely.** How long will it take for this objective to be accomplished?

Following are examples of service level targets:

- **Uptime.** Here, the service provider commits to a percentage of time services will be available. For example, an organization may be committing to a website being online 99.999% of the time or guaranteeing that an SAP system will be available 99.9% of the time during normal business hours.
- **Concurrent users.** A service provider can make commitments to the number of simultaneous users that a given system or solution can support, for example, specifying that 50 users can concurrently connect to a hosted desktop application.
- **Performance benchmarks.** A service provider can commit to specific benchmarks to which actual performance will be periodically compared, such as available resources and system response time.
- **Help desk response times.** Response time can be measured across a range of areas, including responsiveness, time to remediation and time to resolution. For example, a service level target may require that, over the course of a month, a service provider's call center staff will answer 90% of calls within 20 seconds, as measured by the automatic call distribution (ACD) system.

Reporting

Reporting is paramount with respect to SLAs. It is through reporting that the service provider will demonstrate value and goal attainment. It is important to constantly measure every transaction, and to report consistently, whether on a weekly, monthly or quarterly basis or whatever other increment is stipulated in the contract. This

measurement over consistent time periods is essential in helping ensure reporting is objective.

In the ACD example outlined earlier, on any given day or week, the response time attainment may be lower or higher than the 90% of target, but the 90% figure must be attained on average over the course of the month. Therefore, the service provider needs to deliver reports on a monthly basis in order to attest to the ongoing status of their compliance with the service level target. However, monitoring on a frequent basis and tracking trends is essential for the service provider's internal staff, so they can spot problematic trends and address them before an SLA is breached.

Penalties for Non-compliance

What happens if the service provider fails to meet its SLAs? In most cases, SLAs include some form of penalty, usually a payment or credit that the service provider gives to the customer in the event of an SLA breach. The size of the penalty is usually based on the severity of the issue and the monthly fee the customer pays.

Financial penalties aren't necessarily a requirement for all customer engagements, but they are commonly a part of many service providers' SLAs. These contractually defined financial penalties demonstrate that the service provider stands behind its people, infrastructure and services.

These penalties serve as a way to demonstrate commitment and assurance to the customer, effectively ensuring the service provider will suffer a financial hit if SLAs aren't met. In addition, these penalties can serve to provide great incentive to the service provider's service delivery teams to do exemplary work.

Following are a few other considerations for SLA penalties:

- **Evolving.** As service providers gain expertise and operational optimization, they can revisit service level targets and make them tighter over time. For example, a service level target for responding to a medium priority ticket may be reduced from eight to six hours.
- **Negotiable.** Penalties, and virtually all the specifics of an SLA, can be part of the up-front customer negotiation. In some cases, service providers find that if a customer requests steeper penalties, it can help the service delivery team gain an increased focus on key service level targets and ultimately lead to internal operational improvements as they seek to ensure SLAs ultimately aren't breached.
- **Balanced.** Ultimately, service providers need to define penalties that demonstrate commitment to customers. However, they don't want to sign up for such significant penalties that the viability of the business could be threatened if a few SLAs are breached.

Conclusion

SLAs represent one of the most tangible and critical aspects of the relationship established between the service provider and the customer. It is important to recognize that SLAs serve two key purposes: protecting your customers' business and reinforcing the value you bring as their provider. By negotiating SLAs with these objectives in mind, you can ultimately build a stronger partnership with the customer. Ultimately, those service providers that take time to develop effective SLAs can significantly boost their odds of success.

About This Document: Developed by the CA Service Provider Center of Excellence

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