

Avoiding Seven Common Pitfalls Of Service Level Agreements: Gaining Greater Value And Reducing Costs

Sponsored by Oblicore

August, 2004

Written By Ian S. Hayes, President, Clarity Consulting, Inc.



TABLE OF CONTENTS

Section	Page
Executive Summary.....	3
About Clarity Consulting and Ian Hayes.....	3
Introduction.....	4
Avoiding Seven Common Pitfalls Of Service Level Agreements.....	5
Benefits Of Effective Service Level Management.....	8
Guidelines For Successfully Setting And Managing Service Levels.....	10
Oblicore Guarantee: An Application For Improving Service Level Management.....	12
Conclusion.....	14
About Oblicore, Inc.....	15

© Copyright 2004 Oblicore, Inc. All rights reserved. No portion of this document may be reproduced without authorized written permission of Oblicore, Inc.

Oblicore and Oblicore Guarantee are trademarks of Oblicore, Inc. All other company and product names mentioned are the property of their respective owners and are mentioned for identification purposes only.

Executive Summary

In our increasingly complicated and distributed world, service level agreements (SLAs) are becoming an ever more critical tool for defining, measuring and managing the performance of services that comprise our companies. Whether an organization is a provider or consumer of services, stronger service level management leads to better service and lower costs. Yet most companies are less than satisfied with the business value they receive from their SLAs as well as the time and cost of monitoring and administering those agreements. This paper is intended to help organizations gain greater value from their SLA investments and management efforts.

Typically, underperforming service level management efforts suffer from one or more of the following common pitfalls: focusing on the wrong goals, failing to provide a “big picture” view, choosing overly simplistic metrics, including SLA clauses that are not directly actionable, leaving too much room for interpretation, overwhelming recipients with marginally useful data and implementing labor-intensive analysis and reporting processes.

Although there is no one-size-fits-all approach to defining and managing service levels, some best practices include: focusing on the biggest goal, using business requirements to drive performance requirements, starting with a template, choosing metrics that maximize control over service objectives, setting realistic performance goals by analyzing future needs against historical trends, ensuring alignment between service level metrics and customer satisfaction, and planning for proactive management.

Taking advantage of the lessons and recommendations in this white paper will help your organization avoid the seven common pitfalls of SLAs, gain greater value from your current service level agreements, and create better agreements in the future. Of all the best practices that define effective service level management, perhaps the most important is automation. To administer SLA agreements, strongly consider using a powerful and sophisticated enterprise application such as Oblicore Guarantee as the foundation for implementing real-time end-to-end service level management practices.

About Clarity Consulting and Ian Hayes



Ian Hayes is President of Clarity Consulting, a management consulting and analyst firm that focuses on IT strategy and improving the business returns generated by IT investments. Ian has advised dozens of Fortune 1000 companies on how to increase the value of projects and services by better targeting IT investments, improving the effectiveness of IT execution, optimizing the sourcing of IT activities and establishing measurement programs that tie IT performance to business value delivered. Author of three books, he has chaired numerous industry conferences, and his articles have appeared in magazines such as Business Week, Computerworld,

Better Management, the Cutter IT Journal, AD/Trends, Enterprise Application Integration Journal, The Manufacturer and Software Magazine. You can contact him at 1-978-927-0313 or visit his web site at www.clarity-consulting.com.

Introduction

If your company is like most others, you are already using service level agreements (SLAs) to manage some of the services that you provide or receive. And if your experience with these agreements is typical, you feel that you can do better. Whether it is the time and cost of monitoring and administering SLAs, the ability to support meaningful corrective actions when encountering performance exceptions, or even aptitude for maintaining alignment between service delivery and business objectives, SLAs often fall short of expectations. Yet in our increasingly complicated and distributed world, SLAs are becoming an ever more critical tool for defining, measuring and managing the performance of services that comprise our companies.

The role of an SLA is to clearly define service delivery expectations, provide an objective means of assessing whether performance meets those expectations and identify the actions needed to improve performance when warranted. This role is crucial in today's business environment where an interrelated web of companies receives and provides services to each other. Our suppliers' performance affects our performance, which in turn affects the performance of our customers. If our performance falters, our customers can find plenty of competitors willing to take our place. In this light, it is easy to see the strategic advantage of well-tuned SLAs.

Effective SLAs must work in practice as well as on paper. Creating and managing service levels can be hard work, requiring a significant investment of time from highly skilled people throughout the service lifecycle. All too often, the best intentions become undermined by the challenges of collecting, analyzing and acting on the performance data that underpins each SLA. In some cases, service level management becomes a quagmire of bureaucratic overhead, burning significant resources and producing reams of reports which obscure the important points in a blizzard of marginally useful statistics. Conversely, other service level management efforts make so many compromises in their quest to minimize overhead that the measurements they report upon offer little operational value. Gaining the greatest value from SLAs begins with the specific business objectives that they support and choosing the performance criteria that maps to their underlying service delivery components. The measurements that evaluate these criteria must be unambiguous to assess and lead to actionable conclusions. Converting measurement data into meaningful information, while minimizing collection and analysis overhead, can be accomplished only through automation. An effective software application transforms an SLA from a dry legal document into a living, evolving and practical means for assessing, controlling and managing service performance.

This paper is intended to help organizations gain greater value from their SLA investments and management efforts. Whether your company seeks to enhance the benefits delivered by current service level approaches or understand how to create new service level management practices that exceed expectations, this paper can help. The first part examines the avoidable reasons that many SLAs fail and explores the benefits of high-value SLAs and the critical success factors needed to get them. The second part focuses on how to strengthen service level management capabilities and further your company's business objectives. It offers a series of service level guidelines and illustrates how Oblicore Guarantee is a new type of application that can improve service level management.

Avoiding Seven Common Pitfalls of Service Level Agreements

Despite the best intentions of their creators, SLAs do not always work as planned. Whether used internally between departments or externally between customers and suppliers, establishing solid SLA-based relationships is a challenge. Even relatively straightforward services prove surprisingly difficult to define, measure and manage effectively in practice. Typically, underperforming service level efforts suffer from one or more of the following common pitfalls.

1. Focusing on the wrong goals

Since they are frequently defined by technology organizations, SLAs tend to focus on the technical aspects of a service rather than its effect on business performance. Maximizing these technical attributes does not necessarily translate into improved business performance. The **far** better approach is to work top-down, starting with the business objectives that the service is expected to support and selecting attributes that have direct impact on these objectives. For example, if the business goal of an online banking system is to encourage customers to shift from using branch offices to Internet banking, absolute security and transaction reliability are likely to be bigger factors in the service's business success than improving system availability from 99.7% to 99.98%. Once determined, these objectives drive service level attributes that need to be measured, data sources for those attributes and the business logic that determines whether service commitments have been met.

Critical lesson: *Target impact on business performance when defining and managing service levels, then map specific services to desired business results.*

2. Failing to provide a “big picture” view

The overall health of an entire service is more important than its performance in a particular area, yet many service level managers are overwhelmed with detailed data on individual performance commitments. Lacking a “big picture” view, they manage their service providers on each of the detailed commitments without understanding the impact on overall service performance. Penalties and incentives are triggered based on meeting individual commitments rather than overall performance, resulting in sub-process optimization, where service providers focus on the success of parts at the expense of the whole.

Critical lesson: *Manage services by rolling-up measures into an overall view of service performance; drill-down into details for problem resolution.*

3. Choosing overly simplistic metrics

In their quest to simplify data collection and analysis efforts, service level managers often favor ease of measurement over the value of measurement results, selecting metrics that look good on the surface but provide limited value for service management. This bias also leads to the use of easily available technical metrics over more difficult to define and collect business metrics. Unfortunately, overly simplistic metrics provide only superficial insight into performance and preclude meaningful root cause analysis and other improvement activities. A service may easily meet its simply defined performance commitments, but fail to achieve its intended objectives. For example, by itself the number of programmer hours spent resolving production errors on a monthly basis has little value for managing application support. The metric provides no insight on how to drive down hours by reducing errors and can easily be thrown off by external issues such as new software releases or periods of low system use.

Finally, if there is an existing legal contract for a given service, it contains a description of its business commitments. Translating these commitments into service level metrics and supporting evaluation logic provides a far more useful means of determining whether those commitments have been met.

Critical lesson: *Select metrics based on the value they deliver rather than ease of measurement.*

4. Including SLA clauses that are not directly actionable

To be effective, each performance clause in an SLA must refer to an attribute in the control of the service provider and lead to an obvious corrective action if performance fails to meet commitments. A common mistake is measuring attributes that are outside of the service provider's control and consequently incapable of being adjusted for performance. For example, a call center does not have control over the number of incoming support requests, so assessments based on call volume fluctuations have little SLA benefit. Other measures, such as outages due to planned system upgrades, may sound interesting but lack a straightforward connection to service improvement. Even when actions are clear, many companies lack the means to monitor and compel improvements. A recent survey by Strategem Research¹ found that 32% of existing agreements lacked an enforcement method.

Critical lesson: *Ensure that each SLA commitment is tied to a specific set of corrective actions if it is not met and that mechanisms are in place to monitor and trigger these actions.*

5. Leaving too much room for interpretation

SLAs play a crucial role in aligning the expectations between service provider and recipient. Problems arise when expectations are either left unstated and therefore unmeasured or defined ambiguously, leaving room for interpretation. For instance, the Strategem Research study² found that 27% of surveyed providers rated their performance as "excellent", and none rated their performance in the lowest category "fair". Conversely, no service recipient rated their providers as "excellent" and 19% rated their service as merely "fair." Without commonly understood definitions and performance measures, it is impossible to reconcile these viewpoints or make the necessary corrections and adjustments. Similarly, organizational needs change over time, requiring SLAs and their associated contracts to evolve along with the relationships. All too often, these changes are handled informally rather than by adapting the SLA or contract. If the relationship turns sour, the outdated, but last documented, version of these agreements is likely to become the legal interpretation.

Critical lesson: *Clearly define all important performance expectations within the SLA, share common means for reporting and interpreting performance results, and provide a mechanism to manage the SLA throughout its lifecycle to ensure that its terms stay current with the relationship.*

6. Overwhelming recipients with marginally useful data

Even the best defined SLAs and supporting processes can be undermined by poor sources of performance data. Finding and capturing the right data is a difficult chore. Given the complexity of many services arrangements, performance data is generally drawn from numerous sources, leading to problems with data volume, quality and consistency. Technical data sources, such as network performance monitors, produce large volumes of event statistics of which only a tiny percentage is applicable to the needs of service level managers. Moreover, data needs will vary by role. The CIO does not want to wade through stacks of reports to see if a vendor relationship is on track, while a SLA analyst needs sufficient detail to predict future performance and to drill down for root cause analysis.

Some organizations attempt to resolve these issues by concentrating solely on a small set of reports using easily collected data, but this approach compromises the ability to manage SLA performance. A better approach is to rely on software applications to collect, reconcile and store performance data in a consistent format within a repository. Customizing reporting based on role, enables executives, managers and practitioners to receive only information targeted to their needs.

Critical lesson: *Consider performance data requirements by role when initially designing the processes to support each SLA, and automate data collection and management wherever possible.*

7. Implementing labor-intensive analysis and reporting processes

Perhaps the most common complaint about SLAs is the effort needed to collect, analyze and report on the volume of performance data generated. These efforts are costly, time consuming and require highly skilled individuals from both the provider and receiver of the service. The culprit is usually service level management processes that lack standardization and automation, demanding intensive amounts of manual effort to gather data and prepare spreadsheet reports. As a result, reports are often late and draw resources away from more value-generating service improvement activities. Yet, attempts at limiting this effort often lead to many of the SLA compromises described in the preceding six points.

Critical lesson: *Automate as many aspects of service level management as possible to reduce resource requirements and improve the quality and timeliness of reporting.*

Benefits of Effective Service Level Management

The preceding section on Common SLA Pitfalls provides insights on the issues that ensue from less than perfect SLAs, but what are the characteristics and advantages of well-defined SLAs and a strong service level management environment?

In its basic form, an SLA is an agreement between a provider and recipient to deliver one or more services to an agreed upon set of performance commitments. While this agreement is adept at setting initial service delivery expectations, its real value is gained from using it as an instrument for ongoing service management. Consequently, an SLA must be combined with an application and process that supports the monitoring of the agreement’s provisions and the management of the agreement itself. Together, these two components enable *service level management*. Each component has separate critical success factors, summarized in the table below, which must be met for successful service level management.

Critical success factors for an effective contractual agreement	Critical success factors for an effective supporting environment
<ul style="list-style-type: none"> • Focuses on business objectives 	<ul style="list-style-type: none"> • Minimizes the overhead of managing SLAs
<ul style="list-style-type: none"> • Clearly maps services and performance criteria to desired business outcomes 	<ul style="list-style-type: none"> • Assures consistent collection and calculation of performance metrics
<ul style="list-style-type: none"> • Sets realistic performance commitments 	<ul style="list-style-type: none"> • Supports sophisticated analysis and display of performance data
<ul style="list-style-type: none"> • Defines standard, unambiguous metrics to evaluate performance 	<ul style="list-style-type: none"> • Provides real-time visibility into service performance
<ul style="list-style-type: none"> • Emphasizes actions to undertake when performance varies outside of commitments 	<ul style="list-style-type: none"> • Tailors information reporting by recipient role and requirements
<ul style="list-style-type: none"> • Contains enforcement provisions 	<ul style="list-style-type: none"> • Enables full lifecycle management of the agreement and its provisions

While companies can oversee service performance with less than perfect agreements and management environments, there are many reasons to consider improvements in both areas. Simply stated, well-designed SLAs and a strong service level management environment drive improvements in bottom-line business performance by maximizing the effectiveness of the services they target and manage. Whether an organization is a provider or consumer of services, stronger service level management leads to better service and lower costs.

- Better alignment with business**
By focusing on business objectives over pure technical performance, the SLA more strongly aligns service delivery with desired outcomes. By supporting the evolution of an SLA through its lifecycle, the service level management environment ensures business alignment remains tight.
- Ability to manage services proactively**
Rather than reacting to performance issues as they occur, a well-implemented service level management program gives managers the tools to forecast performance, identify potential problem areas and address root causes before they impact service quality.

- **Greater transparency of service delivery**

A strong service level management environment provides its constituents with more accurate and timely insight into all aspects of service delivery, increasing predictability and reliability and eliminating the potential for surprises. Service providers can gain strategic advantage over their competition by offering customers a better and more transparent view of all aspects of their performance.

- **Proof of delivery to commitments**

By supplying a mechanism for evaluating performance against commitments, a well-implemented service level management environment protects both sides of the service relationship by providing unambiguous proof of whether delivery met, failed or exceeded delivery commitments.

- **Lower service level management overhead**

Spending less time and effort administering SLAs frees provider and recipient personnel for working with customers and other value-generating activities. Automation reduces time-consuming data collection, analysis and reporting activities and cuts the lag time to deliver performance information to service constituents. It also provides ongoing version control, a critical requirement for inherently dynamic SLA documents.

- **Better relationships between service providers and recipients**

By removing ambiguity and making expectations explicit, the SLA becomes a tool for maintaining and more closely aligning relationships between service providers and their constituents. It offers a mutually agreed upon platform for evolving service characteristics and delivery commitments to meet constituents' changing needs.

Guidelines for Successfully Setting and Managing Service Levels

As this paper has shown, service levels can have a significant, positive impact on the delivery of services, provided they are set properly and managed correctly. Although there is no one-size-fits-all approach to defining and managing service levels, there are best practices and guidelines that experienced service providers and service recipients use in creating and managing service levels. A good source of information for these practices is the IT Infrastructure Library (ITIL), which offers a series of documents that aid the implementation of a IT service management framework.³ To help practitioners get started, this section offers some practical pointers for creating service levels and setting up management environments.

- **Focus on the biggest goal**

When creating service levels and establishing a management environment, remember to keep priorities straight. The greatest value is gained by improving the performance of the service being managed, not by cutting the cost of the management effort. Although reducing the cost of measuring and managing service levels is an admirable goal, using new capabilities and freed resources to enhance service delivery will likely produce greater bottom-line results.

- **Use business requirements to drive performance requirements**

Having a thorough understanding of the business needs and requirements underpinning the service is a prerequisite to setting the correct performance goals. At a minimum, ensure a complete grasp of:

- The business purpose of the service
- The business result if the service meets its goals (useful in defining incentives)
- How and whether improved service can accelerate these results
- The business result if the service falls short of its goals (useful in setting the value of penalties)
- Possible factors that could cause shortfalls in service
- Potential changes in service requirements over time

If a formal legal agreement exists, it is the ultimate source of business requirements. Working top-down, clause-by-clause through the agreement identifies the commitments that must be met and the often complex business logic that will be used to evaluate compliance to those commitments.

- **Start with a template; develop and use a service catalog**

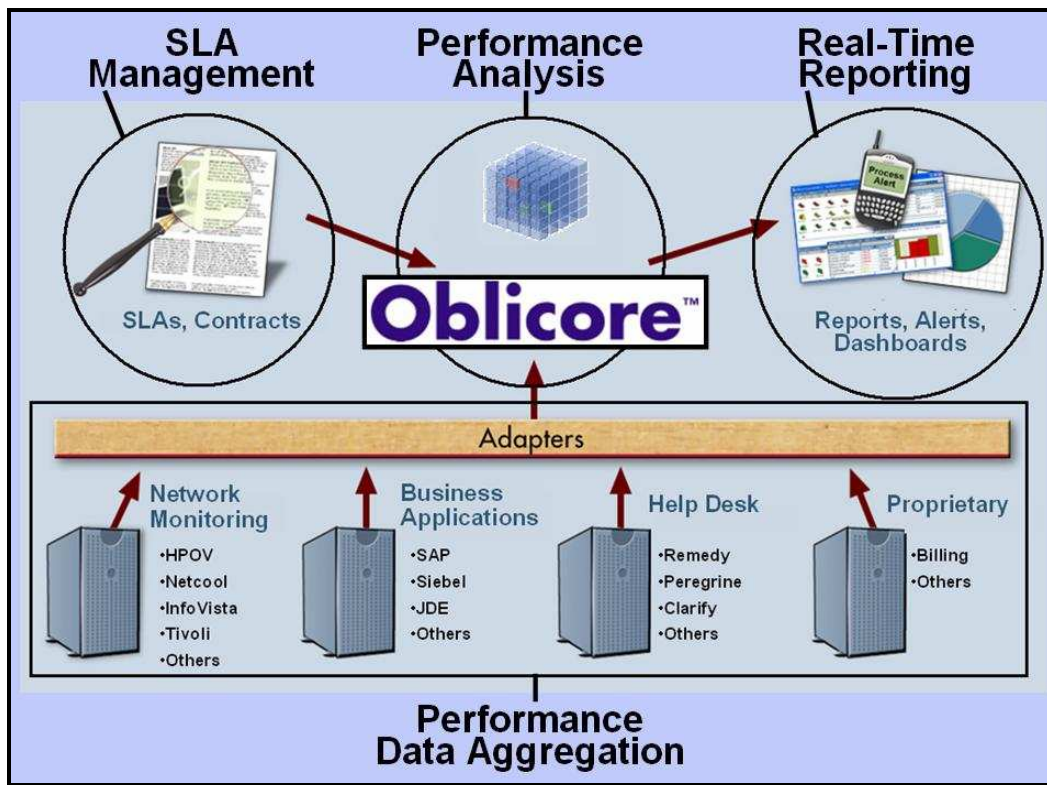
Rather than developing service levels from scratch each time, create one or more “standard” templates that contain a set of basic, workable terms. Starting with a template saves analysis time, lets an organization take advantage of previous experience and avoids repeating previous mistakes. Templates help ensure that important terms are not inadvertently omitted from an SLA, and reinforce consistency of terms and terminology from arrangement to arrangement. Using a service catalog that contains templates and other related definitions further promotes standardization as well as enables organizations to capture and enforce best practices that are developed over time.

- **Choose metrics that maximize control over service objectives**
Many metrics exist to measure performance, but tend to fall into four primary categories: volume of work, quality of work, responsiveness and efficiency. Focus on choosing actionable metrics that give the most insight and control over maximizing performance and meeting service and business objectives, rather than easing collection efforts, for example.
- **Set realistic performance goals by analyzing future needs against historical trends**
To establish attainable service level targets, the parties must understand historical performance levels. An inability to quantify past performance invariably results in incorrectly set, unrealistic future service levels, and ensures that ensuing performance will either lag behind current levels or fail to meet inflated expectations. Analyzing historical data is also advantageous for service providers, as it allows them to better segment their services and tune their pricing.
- **Ensure alignment between service level metrics and customer satisfaction**
To double check that service levels metrics have been chosen and set wisely, use customer satisfaction surveys to poll the consumers of the service to see whether they are happy with the results. Service providers may be meeting their performance commitments, and hitting all of their service targets, but if the metrics are measuring the wrong things, or concentrating on factors that do not matter to customers, then end users will be dissatisfied and new metrics must be chosen.
- **Plan for proactive management**
Service level management applications are invaluable for overseeing performance provided that they relay information in a timely manner, and the parties act promptly to resolve any issues. This information is particularly important when managing financial penalties and incentives associated with service performance goals. Prompt action helps to improve performance and minimize potential penalties. The ability to set predictive alerts to warn about problems and to summarize performance information in a high-level dashboard view allows practitioners to spot issues quickly and adjust performance at the first sign of trouble. The availability of more detailed views, with drill down capabilities, supports root cause analysis of thornier problems. Practitioners can use the time freed from reporting chores to perform more productive tasks, such as analyzing and forecasting service needs.

Oblicore Guarantee: An Application for Improving Service Level Management

Of all the best practices that define effective service level management, perhaps the most important is automation. From handling tedious data collection and number crunching tasks to ensuring consistency in the evaluation of performance to commitments, the right software application brings tremendous value to service level management efforts.

At the forefront of a new generation of applications that support service delivery, Oblicore Guarantee specializes in real-time end-to-end service level management. It supports SLAs throughout their entire lifecycle handling tasks such as creating service catalogs, evaluating terms for prospective commitments, managing agreement versions, reporting on performance to commitments and calculating financial impact. Oblicore Guarantee is equally applicable for use with internal and external customers, and handles IT and business process service level management requirements. It captures SLAs in terms of commitments made to service recipients, the business logic that ties the commitments to IT resources and delivery systems, time and calendar dependencies of service levels, and the financial impacts of compliance or non-compliance to commitments. Oblicore Guarantee also captures the penalty and charge-back formulas that are integral to many agreements.



Oblicore provides end-to-end support for service level management by addressing four core needs within Oblicore Guarantee.

- **SLA Management**

By providing a full lifecycle support environment for SLA contracts, Oblicore Guarantee enables service level managers to model, validate, implement, monitor and maintain the intricate business logic and metrics needed to handle today's complete and diverse service management requirements. Since Oblicore Guarantee starts from the service contract, it is inherently aligned with business commitments. It captures and automates the complex compound conditions that determine whether those commitments have been met. Templates ease the task of defining new SLAs and a common repository helps ensure consistency in terms, metrics and performance calculations.

- **Performance Data Collection**

Through its intelligent adapters, Oblicore Guarantee automates the collection and aggregation of performance data from a myriad of sources including network managers, help desk software and business applications such as ERP systems. It converts this data into information by extracting the relevant portions and continually evaluating performance against commitments using the business logic specified in each SLA.

- **Performance Analysis**

Oblicore Guarantee provides integrated capabilities to support proactive management of service performance. Its powerful OLAP capabilities make it easy to drill down into the specifics of service delivery to reveal trends, identify problem areas, perform root cause analysis and tune service performance.

- **Real-Time Reporting**

A particular strength of Oblicore Guarantee is its ability to provide real-time performance information in a wealth of powerful formats. It can trigger real time alerts for critical conditions such as existing service outages or warnings of approaching breaches. Its digital dashboard communicates performance against contractual obligations through graphical views customized to each viewer's role and information requirements. The application also generates a plethora of reports that can be tailored for any need, assembled into books and even scheduled for automatic creation and distribution.

Conclusion

Whether your organization is a service provider or a service recipient, implementing effective service level management will pay back in terms of better service and improved business performance. Well-designed SLAs and strong service level management applications and processes reduce the time and effort needed to administer agreements, provide better and more timely information, lead to fewer service problems and faster resolution when problems occur, more closely align service delivery with underlying business objectives, and result in stronger long-term relationships between suppliers and recipients.

Taking advantage of the lessons and recommendations in this white paper will help your organization gain greater value from its service level agreements and create better agreements in the future. To administer those agreements, strongly consider using a powerful and sophisticated enterprise application such as Oblicore Guarantee as the foundation for implementing service level management best practices. It is these practices that will enable you to avoid the seven common pitfalls of SLAs in order to gain greater value and reduce costs.

References

1. "Service Level Management Issues Report," Strategem Research, June 2003, page 2
2. Ibid, page 14
3. "The ITIL and ITSM Directory," www.iti-itsm-world.com

About Oblicore, Inc.

Oblicore is a leading provider of enterprise applications that help organizations manage service level agreements (SLAs) and outsourcing contracts by providing real-time performance visibility and by reducing the cost and effort of reporting. The company's flagship application, Oblicore Guarantee ESP, starts with a top down view of SLAs and outsourcing contracts. It captures business commitments, services, business logic/rules and target service levels. It then automatically gathers data from all underlying IT and business systems (e.g. help desk, network, application, database, server, billing and proprietary systems) to provide continuous performance monitoring and reporting -- uniquely from the perspective of business objectives. It performs full lifecycle management of agreements (e.g. to help plan new agreements as well as to keep track of multiple versions of "live" agreements) and automates detailed reporting and analysis, with an emphasis on the business and financial impact of compliance.

Oblicore is in its fifth year of operation and has gained broad market acceptance by leading global companies and service providers in telecom, financial services, healthcare, manufacturing and other industries. Here is what some of our customers are saying about us:

"Oblicore Guarantee allows us minute-by-minute comparison of our commitments to our performance, allowing us to effectively and efficiently deliver on our commitments."

- Alan Burgess, Corporate CIO at Dimension Data

"We selected Oblicore Guarantee because we were impressed with the product's flexibility in modeling our sophisticated process and its ability to capture and reveal the financial implications of compliance or non-compliance."

- Mr. Ronny Bovijn, Director Service Delivery of Belgacom

"Oblicore Guarantee alerts us before a service breach occurs so that we have the opportunity to resolve problems proactively rather than reactively. The result is better service for our customers and better more efficient management of our business"

- Luc Mertens, Managing Operations Director for Telindus

"We are impressed by the real-time business visibility delivered by the Oblicore dashboard to multiple decision makers, as well as by the expertise and commitment of the Oblicore people."

- Mr. Ecke, CIO of E.ON Energie

For more information, please visit www.oblicore.com or contact Oblicore at:

North America/Headquarters:
9841 Broken Land Parkway
Columbia, MD 21046
(410) 290-8701 (phone)
(410) 290-8702 (fax)
www.oblicore.com

Oblicore Europe:
Haachtsesteenweg 378
1910 Kampenhout, Belgium
+32 16 89 04 84 (phone)
+32 16 65 90 85 (fax)