

CREATING BETTER SERVICE LEVEL METRICS

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The Importance of Good Metrics

To reduce costs and power faster growth, companies are increasingly turning to sourcing partners for a wide array of services. Given their importance to business operations, companies manage sourcing arrangements through complex contracts that contain detailed statements of work (SOWs) describing the services and deliverables to be provided and service level agreements (SLAs) that use metrics to describe desired performance standards and a framework for monitoring the ongoing delivery of the service. When chosen wisely and implemented correctly, service level metrics are an invaluable governance tool. They can provide:

- Precise delivery standards for service attributes such as quality, responsiveness, and efficiency
- An objective means for determining if ongoing performance meets expectations and a basis for triggering rewards or penalties based on that performance
- Valuable trend and operational data that enables the rapid identification and correction of issues
- A foundation for making informed adjustments in service delivery to meet changing business requirements
- A powerful means for extracting greater mutual business value from a sourcing arrangement

Unfortunately, service level metrics rarely deliver these desired benefits. Many sourcing arrangements invest considerable resources collecting and reporting on metrics that have marginal value at best. Worse yet, poorly selected metrics can actually motivate behaviors that are detrimental to the success of the sourcing arrangement and its ability to deliver desired business results.

This white paper examines the common issues that cause service level metrics to fail as well as recommendations for addressing those issues.

Why Service Level Metrics Fail

Despite their value and importance, service level metrics are all too often an afterthought when negotiating a services agreement. Whether due to lack of time, math phobia, dislike of being measured or simple unwillingness to invest proper effort, the metrics in many SLAs are rudimentary and fail to provide any real value to either party in the sourcing arrangement. Typically, the value of a SLA is compromised by one or more of the following issues.

1. Wrong Metrics

Companies enter into service arrangements for a single purpose – to further one or more business objectives. For example, the goal may be to cut costs, better serve customers, reduce risk, streamline operations or gain capacity. To have value in a SLA, a metric must contribute directly to the assessment of the service's ability to achieve the desired business objectives. For instance, if the goal is to streamline operations, the metrics should measure the service's improvements to operations.

Typical mistakes when choosing metrics include:

- Going for ease of measurement first. The chosen metric may be easy to obtain, but it has only a tenuous relation to the underlying business objective.
- Not considering collection and analysis effort. Too hard is as bad as too easy; if a metric takes too much effort to understand and use, it will fall by the wayside.
- Not identifying how the metric will be used. Metrics must provide actionable information. If a change in the metric data (good or bad) doesn't point to an obvious action, it is a useless metric.
- Measuring attributes outside of the control of the service provider. The metric may be interesting, but it won't motivate better service.
- Picking a metric that is not clearly defined. If a metric's definition and collection methods are open to interpretation, it **will** become a source of dispute at some point in the contract.
- Selecting boilerplate metrics that do not have a close relationship to the business being serviced. The generic metrics suggested by analyst organizations and found on the web can be a useful starting point, but are too generic to be meaningful without customization.
- Using the vendor's metrics by default. Although a vendor provided SLA may contain some valuable metrics, remember they are skewed towards their business objectives -- enhancing profitability, selling additional services, and lessening the risk of service penalties. Vendors prefer using metrics and setting targets that ensure their delivery looks successful.

2. Wrong Target Settings

Even the right metrics are useless if not set correctly. A SLA contains both metrics and targets. For example, a call center metric may be "calls per rep per hour" and the target may be set to 15. The service provider is judged (and may be rewarded or penalized) by its ability to meet the target. Unfortunately, companies often lack previous performance history to set the targets properly. They rely on estimates (or guesses) or set metrics for what is desired (ideal) rather than what is achievable. Setting the target too low fails to gain the desired business benefits, while setting it too high sets the relationship up for failure.

3. Insufficient Metrics to Support Sound Decision Making

Simplicity is a valid objective when choosing metrics for a SLA, however, too many managers want only "a few key indicators." These metrics may be useful, but they don't supply the entire picture or assist in troubleshooting when things go wrong. For example, relying on the speedometer in a car as a primary indicator works great until you run out of gas.

4. Improper Setup and Infrastructure to Support Metrics Usage

Like any other tool, metrics require an investment of time, education and resources to be effective. If an organization is not willing to invest in the necessary set up and infrastructure to manage its SLA effectively, it should not bother to negotiate one in the first place. All too often, SLA reporting is a burdensome overhead activity that produces reams of cryptic, number-filled documents that pile up unread in cubicles.

Managing to a SLA is a continuous effort that requires monitoring and adjustment through the entire life of the contract. Once in place, someone in the organization must be responsible (and held accountable) to managing the vendor's performance to its terms. Planning for and implementing metrics collection, analysis and reporting processes (and automation wherever possible) is essential to reduce overhead and encourage use. The

business owner of the services arrangement must be trained on how to interpret and act upon the metrics data and held accountable for doing so.

5. Misused Penalties and Incentives

Performance penalties and incentives can be powerful motivators in the right situations, but can quickly poison a service relationship if misused. Unless thought through carefully, they can motivate the wrong behaviors and set up a relationship that is contentious from the start. To work properly, both the metrics and their settings have to be correct and incentives must be firmly aligned with the underlying business objectives.

6. Overemphasis on Cost

A service arrangement may be sold primarily on business benefits, but somehow by the time the arrangement is codified in a SLA the metrics assess performance almost entirely on cost. Part of the issue is the ease of measuring cost (see wrong metrics above). Also, the team assembling the SLA may be unaware of the original underlying business objectives. Before skewing a SLA too heavily to cost, ask if cost cutting is really the overarching objective. Often the goal is ensuring the efficiency of the arrangement (i.e. the unit cost of the contract should go down over time). As such, the actual cost may vary depending on the volume of service the business needs and may validly increase if the service is successful.

Metrics and Service Lifecycle Phase

The effort and methods needed to establish an effective SLA are quite different depending on the lifecycle phase of the services arrangement. Obviously, the earlier service levels are considered, the better; however, organizations can and should attempt to establish healthy SLA management practices in all measured services arrangements regardless of the phase.

- **At the Start of the Sourcing Process**

In the ideal world, service level metrics should be part of the initial planning and consideration before sourcing a services contract. Choosing the right metrics early in the process allows time to verify the metrics against past performance, collect historical data for setting targets, determine the best collection metrics and include the use of the selected metrics and targets as a requirement in the Request for Proposal (RFP). Incorporating metrics selection early in the decision process puts a strong emphasis on identifying the business objectives the services are expected to deliver and thinking through how performance to those objectives will be judged. Including the metrics requirements in the RFP ensures the vendor knows and is committed to achieving those objectives if they wish to remain in the bidding process. With expectations clearly set, measurement and assessment can begin as soon as the services are initiated.

- **After Negotiation**

All too commonly, the basic business terms of an engagement are decided and negotiated before service level metrics are considered. The parties on both sides of the transaction are eager to begin the arrangement, and the SLA is negotiated quickly as a contract addendum. This situation is far from ideal, but it is still possible to create a successful SLA if the following points are followed.

- Don't defer the SLA negotiations until after the project starts! Given pressures to start quickly and having little historical data to serve as a baseline, companies succumb to vendor suggestions to "get a little experience first..." before attempting to define the SLA. This approach works completely to the vendor's benefit. Either the SLA will be forgotten, or it will be based on the vendor's own metrics and target levels.

- Don't rush. Resist pressures to move quickly and spend the time to pick the right metrics and targets. Although some flexibility has been lost by not starting earlier, service level metrics can still reflect the business terms of a negotiated arrangement. Spend the effort to verify the chosen metrics by researching historical performance or through internal experimentation.
- Set up a contract mechanism to permit renegotiation as experience is gained. Putting a stake in the ground with the organization's own metrics and targets provides negotiation leverage once the services arrangement begins and more data becomes available. Use this data to reset the SLA fairly for both parties.
- **An Operational Service Engagement with an Existing SLA**

When a services arrangement is in full operation with an existing SLA, making adjustments presents a series of challenges. Usually, the arrangement is not functioning as well as desired; otherwise, there would be little pressure to revisit the agreement. The existing SLA likely has many of the issues described in the first section of this paper. If the existing metrics don't work for either side, the vendor may be open for a total renegotiation of the agreement. However, if the existing agreement favors the vendor (and they are performing well by current metrics and targets), they will resist making changes despite engagement issues, unless they get financial or other concessions. The underlying cause of this situation is the use of metrics that are not adequately tied to the business objectives of the engagement. The vendor is meeting or exceeding the negotiated agreement (measured against metrics that don't reflect true value delivery against objectives), but customer satisfaction (a strong measure of value attainment) is poor. Turning this situation around requires replacing the existing metrics and setting new targets that are acceptable to both sides, and that better reflect the business intentions of the engagement. Concessions may be needed to get the vendor to accept the risk of being measured by less favorable metrics. The benefit for both sides is a stronger relationship and a more successful engagement as performance will map more directly to customer satisfaction.
- **An Operational Deal Without a SLA**

The final scenario is an operational engagement without an existing SLA. This situation occurs when a company seeks to strengthen the governance of an existing services arrangement. If at all possible, the SLA should be added at the point of contract renewal, when the buyer has some leverage for renegotiation. Otherwise, the vendor will have to be convinced why measurement is advantageous for them. The best approach is to provide a "break in" period for testing the new standards without consequence to prove the business value of the metrics and to calibrate vendor performance to allow fair target setting. Offering some incentives, such as bonuses or the opportunity to receive additional projects for good to exceptional performance to the new standards, provides the vendor with tangible business reasons for accepting the SLA.

Seven Steps for Creating Better Service Level Metrics

To determine the level of effort that should be spent in this area, consider the size of the services contract and its potential impact on overall business performance. What is the value of a 10% improvement in the performance of the services arrangement? What is the cost and impact of replacing that arrangement if it fails? If the answers to the questions are financially significant, service governance becomes essential and investments in service metrics and their supporting infrastructure will be easily justified.

Choosing the right service metrics, creating effective service level agreements and managing services using those agreements are topics that can easily fill several books. However, the tips below should provide a starting point when considering a service level metrics program.

1. Start from the Business Objectives

Forget about the operational details of the service for now. Start at the top – the business objectives that are driving the consideration of the services arrangement. Begin by listing each of the major objectives. For each objective, list how the service contributes to the attainment of each objective. Next, consider the attributes that assess each contribution. For example, one objective for outsourcing the support of a corporate website may be to attract more prospective buyers for the business. The outsourcing engagement would contribute to this objective by developing an attractive website that encourages more visitors, promotes the company's products and captures contact information for sales follow-up. These contributions could be measured by the number of people that visit the site, noting the people who examine each product's information and capturing visitor sign-ups.

2. Turn the Objectives into Metrics

To turn the attributes determined above into metrics consider the following factors. Are the attributes within the power of the service provider to control or affect? If the attribute is important, but not entirely in the vendor's control, can it be supplemented with another metric that isolates the vendor's responsibilities? Would the metrics data from those attributes produce actionable insights? Discard any attributes whose results are merely interesting. Consider the behavior that would be motivated by the metric. If the vendor optimizes performance to maximize this metric, does it improve business performance? Finally, consider the means of collecting and analyzing the metrics. If a metric is easy to collect, but doesn't provide value, it is useless. However, a metric that produces significant insight may be worth an investment to collect. Continuing with the example from above, the bottom-line metric may be the number of new buying prospects per month. However, this number is only partially under the control of the service provider. The other attributes could be measured by the number of unique individuals that visit the site, the number of page views for company products, and the number of on-line sign-ups for demos and downloads. Over time, these metrics can be statistically correlated against the number of new buying prospects to fully determine their impact. Further, each metric is actionable. If the number of product page views starts to drop, new content and better promotion is needed.

3. Add Operational Metrics

Once the business metrics have been chosen, additional metrics are needed to cover the operational aspects of delivery. These metrics fall into four broad categories: volume, responsiveness, quality and efficiency. Using a combination of metrics from each of these categories provides a full picture of service delivery. Using demo and download sign-ups from our example, the company wants to know the number of sign-ups per time period (volume), the time needed to pass these sign-ups to Sales as prospects (responsiveness), the type of person signing up (quality) and cost per sign-up delivered (efficiency). The quality

metric ensures that the service provider attracts true prospects as sign-ups – business people rather than teenagers to sign-up (assuming that business people are the company’s target). By dividing the cost of the service against the number of sign-ups gathered, the company gains a measure that enables comparison of the vendor’s performance in driving in prospects against other sources.

4. Set Reasonable Performance Targets

Each metric should have its own performance target in the SLA. The values for these targets should be based on actual experience wherever possible to ensure they are realistic and achievable. For example, the company wants 1000 download sign-ups per month, these sign-ups must reach the sales people through email within 15 minutes of occurrence, at least 60% of the sign-ups must be business people, and the cost should not exceed \$14 per sign-up. Note that these targets are all actionable and set very clear expectations for the service provider. Performance targets can be set to rise over time if the contract includes expected improvements in delivery efficiency. Likewise, incentives (or penalties) can be provided when performance targets are exceeded (or failed). Incentives should be based on the value of better performance to the company. For example, the company’s sales process may have a very well defined funnel for taking buying prospects through to a sale and knows that 100 extra prospects translates into 5 additional \$10,000 sales. In this case, providing the service provider with an incentive to capture more sign-ups is well justified.

5. Create a Metrics Definition Document

The Metrics Definition Document accompanies the SLA and describes each metric in detail. It describes the intent of the metrics (i.e. why was it chosen), how the metric is measured, and how the metric is interpreted. The goal of the document is to ensure that all parties capture, analyze and act upon the metric in the same way. Both sides should use the same tools, formulas and processes for metrics capture and analysis to avoid inconsistencies and disputes. Likewise, the document should describe the specific actions that are expected when the metrics data changes. For example, is a one-month spike of 10% up or down a cause for immediate concern? Or should data be trended for 3 months?

6. Build the Contract to Facilitate Changes in the SLA

No matter how carefully it is conceived and created, every SLA changes almost immediately as new data arrives, business conditions change or the parameters of the service need adjustment. Ensure the contract for the service contains a mechanism that facilitates regular reviews and updates of the SLA with minimal renegotiation. Consider how business circumstances could change and how those changes would affect the SLA and its metrics. For example, what if the company decides it needs separate hosted websites for each of its major international markets? Will that change reduce the number of website visitors under the current SLA due to no fault of the existing vendor?

7. Match SLAs with Separate Customer Satisfaction Surveys

Performing separate Customer Satisfaction surveys of a given service’s internal customers is a critical double-check of both the vendor’s performance and the quality of the SLA and its metrics. If SLA performance meets or exceeds target, yet customer satisfaction is low (or visa versa), the SLA is using the wrong metrics. Mismatches between customer satisfaction data and SLA data can be very enlightening when seeking clues on how to improve both the quality of service performance and vendor relationship.

In Conclusion

Service level metrics can be an enormously powerful tool for increasing the success of a services arrangement. Choosing the right metrics makes the difference between wasted effort and gaining higher business value from the arrangement. Spending the time to research and carefully select the right metrics before sourcing a services project brings the best results, but organizations can still gain significant value revisiting existing engagements. Use this document as a starting point for metrics selection and SLA development, but be sure to draw in additional expertise as needed. Gaining the advice of a SLA metrics specialist can avoid many costly mistakes in selection and implementation, saving both time and money while gaining a better end result.

About Clarity Consulting, Inc.

Clarity Consulting, Inc. is a management consulting firm specializing in Information Technology strategies and emerging trends in areas such as outsourcing, IT efficiency enhancement, process redesign, productivity and service level metrics, product and service offering development and IT product and service development.

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