

Proactive Service Level Agreements: Adding Muscle To Your SLAs

A White Paper

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Introduction

Service Level Agreements (SLAs) are nothing new. As early as the 1960s, organizations were using SLAs within their own IT departments to monitor data center performance. By the 1970s, telecommunications companies included SLAs with their offerings as a way to assure quality service. But the technology environment was much different 10-20 years ago.

Few applications were mission-critical (unless they were on a private network), there were fewer services available, and, far fewer service *providers*. In short, networks were much less complex and, most pointedly, network downtime did not equate to a *significant dollar loss*. Thus, there was little need for SLAs, a situation that remained the case throughout the 1980s and the first part of the 1990s.

Today, many factors are creating a situation where enterprises are placing more of an emphasis on SLAs than ever before:

- The rise of “E” applications, which often reach beyond the traditional boundaries of an organization to include transactions with suppliers, clients, and other constituencies.
- The spread of global business, which creates traffic flows to remote—yet critical—locations.
- The rise of outsourcing, which adds the task of managing service providers to the long list of IT job functions.
- The widespread adoption of Internet-based services, which deliver economic benefits but often with reduced control.

A majority of enterprises currently have SLAs for most data communications services.¹ These SLAs can be simple or quite comprehensive, covering everything from bandwidth availability to response and resolution times. Tracking SLA *compliance*, however, is another matter.

Enter the *proactive* SLA. This guaranteed SLA addresses these limitations by putting muscle behind the agreement. With features such as monitoring from the customer premise, real-time reports, automatic notification of outages, and automatic credits for service degradation, the proactive SLA does something SLAs to date have been unable to do—offer compliance *verification*.

So how valuable is this proactive SLA to enterprises? *Very*.

SLAs are Mandatory

SLAs in and of themselves are no longer niceties or even a way for a service provider to differentiate itself. Rather, SLAs are points of entry—increasingly mandatory requirements for enterprises when evaluating service providers.

SLAs Have Gained in Importance

To illustrate this point, Figure 1 shows the increasing importance of SLAs when choosing a service provider.² The last time enterprises chose a service provider, only 16% reported that SLAs were mandatory for selection. However, the next time out, *nearly half* (41%) will demand SLAs.

Given the current environment, this is not surprising. Enterprises must now manage numerous service providers—everything from ISPs, ASPs, NSPs, and other xSPs. This is becoming an increasingly tedious and time-consuming task. SLAs are one way for enterprises to keep service providers in check. For the customer, SLAs are also a way to set expectations upfront with the service provider. On the other hand, for the service provider, SLAs are a way to instill confidence in the customer.

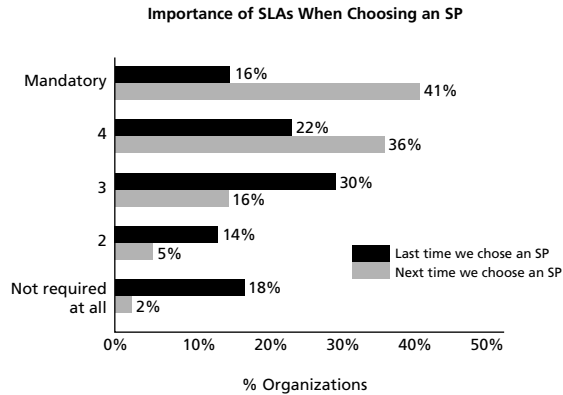


FIGURE 1: Most will require SLAs

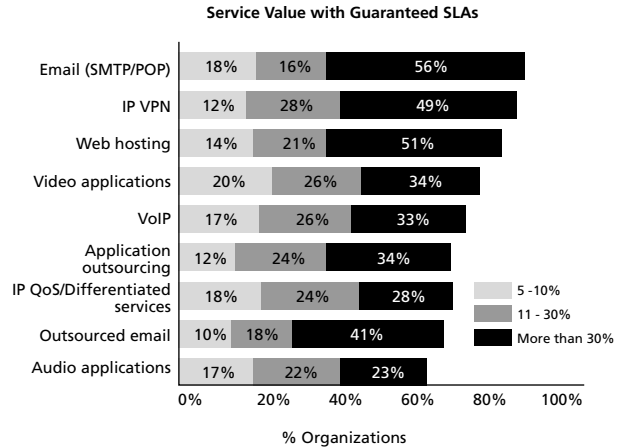


FIGURE 2: Many services are worth 30% more with guaranteed SLAs

Guaranteed SLAs Increase Service Value

While it is always critical to meet customers' needs, it is also critical to do so efficiently, and without hurting the bottom line. Interestingly, and, perhaps most importantly, guaranteed SLAs increase service value.³ Two populations of enterprise users have been identified in regards to the value of guaranteed SLAs. The first group of enterprises perceives that services with guaranteed SLAs are worth up to 30% more than services without guaranteed SLAs. The second group of enterprises has the perception that services with guaranteed SLAs are worth *over 30%* more than services without guaranteed SLAs. Figure 2 illustrates this point.

This data also shows that significant opportunities exist for service providers that offer specific services. Consider the following points:

- Over half (56%) of enterprises indicate that email services with guaranteed SLAs are worth over 30% more than email services without guaranteed SLAs.
- Half (51%) of enterprises indicate that Web hosting services with guaranteed SLAs are worth over 30% more than Web hosting services without guaranteed SLAs.
- Half (49%) of enterprises indicate that IP VPN services with guaranteed SLAs are worth over 30% more than IP VPN services without guaranteed SLAs.

What does this mean to service providers? The bottom line is that with guaranteed SLAs, service providers will be well aligned with their customers' needs.

Assuring SLA Compliance

SLA verification is essential as enterprises rely on multiple service providers for increasingly complex services. So what are enterprises looking for? What verification features do enterprises find valuable in proactive SLAs?

Enterprises value real-time, online reports.⁴ This feature would be *extremely valuable* to nearly half (42%) of enterprises. SLA reports that are provided via a Web-based interface in a real-time manner empower IT staff to check service status at their convenience.

Another highly valued feature is automatic credits for SLA noncompliance.⁵ In today's fast-paced business world, time is money. It is frustrating to enterprise IT staff when they need to pursue service providers for the appropriate SLA credits. Thus, not surprisingly, automatic credits would be *extremely valuable* to nearly half (42%) of enterprises that use SLAs.

Receiving uniform SLA verification across all services is another key feature for enterprises.⁶ As enterprises add more and more services, more and more diverse

SLAs are put in place. Enterprises find value in a consistent set of tools being used to verify all their SLAs, and streamlining these reports into a single document or portal, rather than separate tools and reports for each SLA.

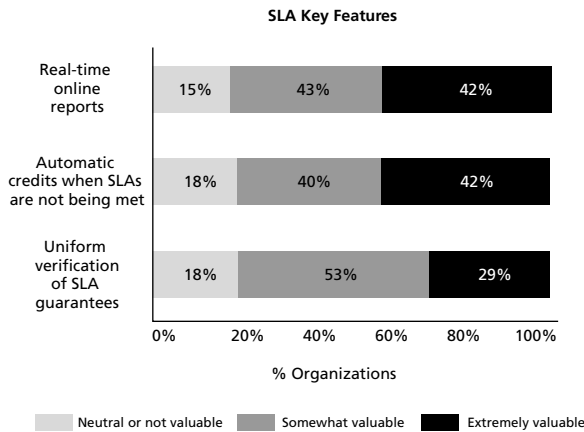


FIGURE 3: Many SLA features are valuable to enterprises

SLA Compliance Disputes

SLA compliance disputes are costly for both the enterprise customer as well as the service provider. For the customer, valuable IT staff or management time must be spent first to verify that degradation has occurred. Secondly, the customer must prove to the service provider that the SLA was violated. This can be a lengthy, frustrating process for the customer.

Unfortunately, these disputes are common—nearly half (43%) of enterprise organizations (see Figure 4) have had at least one instance of disputed SLA compliance.⁷

These disputes are also costly for service providers. They can lead to the customer switching providers, withholding payment for services, and even litigation in extreme cases (see Figure 5).

Experienced Disputed SLA Compliance

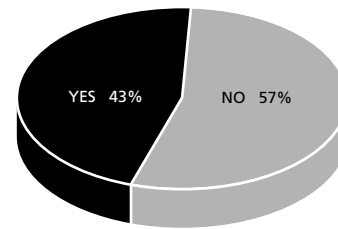


FIGURE 4: Nearly half have disputed SLA compliance

Guaranteed SLAs may not eliminate compliance disputes altogether. However, with guaranteed SLAs and proactive testing, service providers and their customers will have common expectations of the SLA, and will benefit from an independent testing methodology consistently applied, rather than individual interpretation and finger pointing.

Action Taken Due to Disputes

The cost of SLA disputes is high. An impressive 88% of enterprises take action as a result of an SLA dispute.⁸ And while many impose the penalty that was built into the SLA, 38% *withhold payment* for services and 31% of enterprises *change providers* as a result of SLA disputes.

One way to avoid costly SLA disputes is for the service provider and the customer to communicate effectively when building the SLA agreement. Since the majority of SLAs (75%) are composed jointly between the service provider and the customer, every effort must be made to be clear regarding the terms of the SLA.⁹ However, this does not completely solve the problem.

In order to further minimize SLA disputes, accurate monitoring and verification tools must be in place. The customer must be able to accurately monitor complex services in a real-time, regular, and user-friendly manner. Further, if customers are offered consistent access to the same SLA monitoring reports that the service provider has access to, customers will feel that the provider has nothing to hide. Even if customers do not access the information on a regular basis, simply making this data available will boost a service provider's trust and credibility rating.

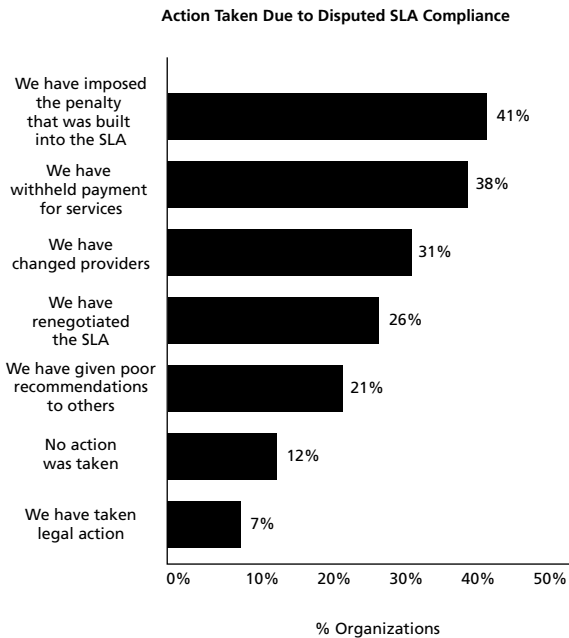


FIGURE 5: Many have withheld payment or changed providers

Technologies in Dispute

No service provider is exempt from SLA disputes. SLA compliance for everything from email applications to audio applications has been disputed. In fact, disputes have occurred most for two of the fastest growing services—web hosting and IP Virtual Private Networks.¹⁰ This is not surprising since these services are still relatively new.

As Figure 6 shows, nearly half (48%) of enterprises have disputed their web hosting SLA compliance. This shows that there is a disconnect between the customer and service provider. Further, this proves that web hosting companies are not able to consistently meet customer expectations. This is a serious issue in a highly competitive market where switching providers is difficult, but certainly an option. Service providers that offer web hosting to enterprises must be armed with the appropriate tools to verify their service delivery—not only for defensive purposes, but also as a means of keeping customers satisfied.

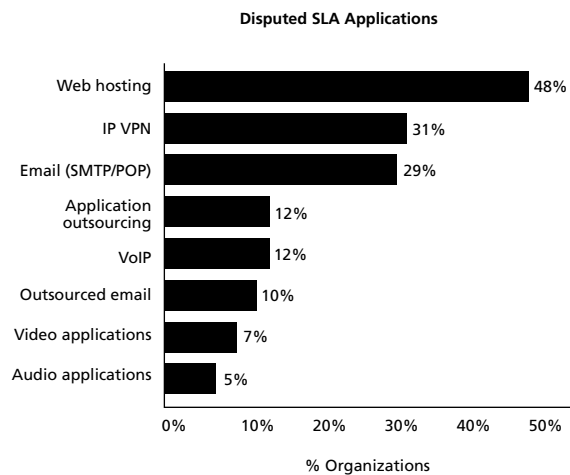


FIGURE 6: Web hosting is often disputed

Conclusion

Service providers that are unable to deliver SLAs with clear and accurate verification will find themselves increasingly misaligned with customer requirements. The research results clearly indicate strong, pervasive requirements for SLAs and how they need to be monitored. The common theme is that customers want proactive SLAs—proactive in their reporting and in their crediting.

Service providers seeking to stay in touch with customer requirements will need to address specific SLA requirements, including the following:

- Proactive 24x7 monitoring from the customer location
- Regular SLA monitoring and verification reports
- Real-time online access to SLA monitoring
- Uniform SLAs across all services
- Automatic credits when SLAs are not being met

Offering SLAs is no longer enough to gain a competitive advantage—it's required simply for parity. But by offering a proactive, guaranteed SLA, a service

provider will be able to differentiate itself from the rest of the service provider pack. Thus, service providers that can deliver true SLA compliance will gain a substantial competitive advantage.

Demographics

This section profiles the survey population. As the following three charts show, data was collected from a wide range of company sizes, geographic scopes, and industries.

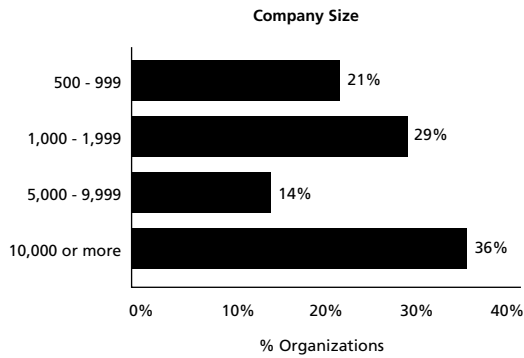


FIGURE 7: Wide range of company sizes

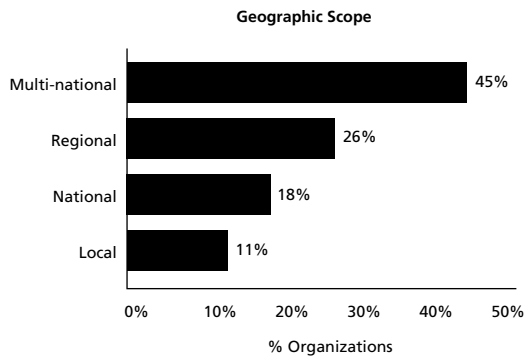


FIGURE 8: Organizations from multi-national to local scope

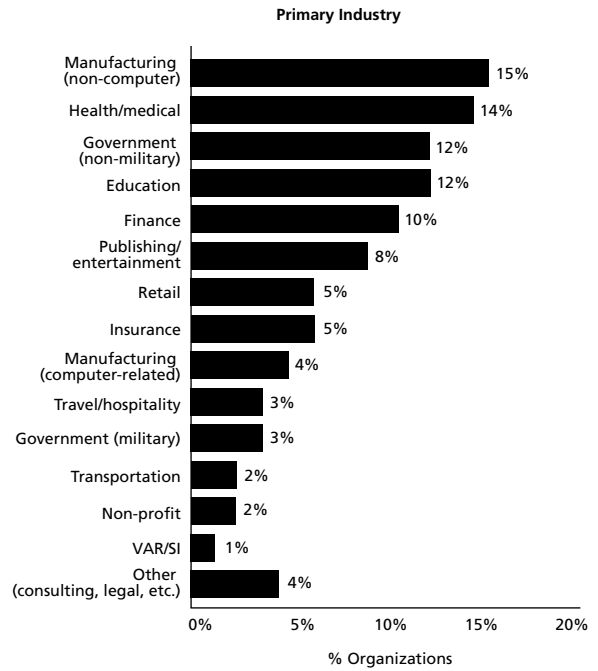


FIGURE 9: Diverse industries

About Sage Research

Sage Research Inc., a full-service market research firm, provides custom and syndicated demand-side research to IT vendors and service providers. The firm combines expertise in both qualitative and quantitative research methods with an in-depth knowledge of technology markets. Since 1993, Sage Research has delivered objective and reliable data, insightful analysis, and actionable recommendations to industry leaders and innovative start-ups. For more information, visit www.sageresearch.com.

- 1 All data in this report is based on a survey of 148 enterprise organizations conducted by Sage Research, Inc. Respondents are from organizations ranging in size from 500 to more than 10,000 employees and have responsibility for data communications services such as Internet-based services, Frame Relay, ATM, outsourced network services, etc. See page 6 for more detailed demographic information.
- 2 Two survey questions are represented in this figure. First, respondents were asked, "How important were SLAs the last time you chose an IP-related service provider?" Secondly, respondents were asked, "How important will SLAs be the next time you choose an IP-related service provider?"
- 3 Respondents were instructed, "Please complete the following sentence: Services with a guaranteed SLA are worth ___% more to my organization than the same service without a guaranteed SLA."
- 4 Respondents were asked, "What is the value of real-time, online access to IP-related SLA monitoring and verifications reports?"
- 5 Respondents were asked, "How valuable would receiving automatic credits when SLAs are not being met be to your organization?"
- 6 Respondents were asked, "How valuable would uniform verification and reporting of all SLA guarantees from your provider be to your organization? By uniform, we mean one set of tools and reports covering all SLAs as opposed to different tools or reports for each SLA service."
- 7 Survey respondents were asked, "Has your organization experienced one or more instances of disputed SLA compliance?"
- 8 Those respondents who have experienced SLA disputes were asked, "What action did your organization take?"
- 9 Respondents were asked this question, "Which of the following describes the process for negotiating and/or writing your current/planned formal SLAs?" Respondents were given the following answer options: "The majority of our SLAs are written solely by service providers" and "The majority of our SLAs are written jointly between us and our service providers."
- 10 Those respondents that have experienced disputed SLA compliance were asked, "Which of the following application SLAs have been disputed?" The applications listed in the chart were given as answer options.



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