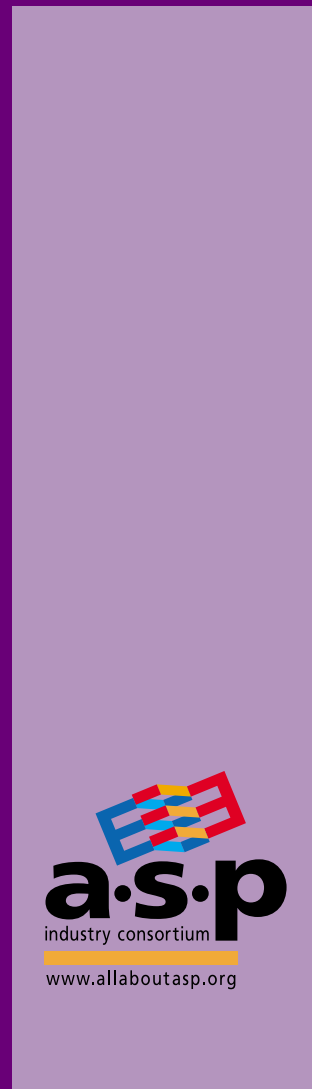


**An Overview of  
*The Guide to Service  
Level Agreements*  
White Paper**

Best Practices Committee  
Application Service Provider  
Industry Consortium



***The Guide to Service Level Agreements produced by members of the Application Service Provider Industry Consortium is intended to help service providers, and especially application service providers (ASPs), prepare and negotiate service level agreements (SLAs) with clients and partners. The Consortium has over 680 members from over 28 countries.***

The material presented here is a compilation of experiences described by participants of the Best Practice Committee's Service Level Agreements team. Since ASPs are relatively new, many experiences to date come from similar, but more traditional, outsourcing and managed IT services and businesses. For these reasons, it is intended that the white paper will be maintained as a living document, with gaps erased as ASP services evolve.

While the white paper was primarily developed for those who negotiate contracts with customers and partners, it will provide consumers of ASP services with valuable information and insight into SLAs.

The Guide opens with an introduction to the industry including historical bases and the importance of SLA. The rise of the ASP models, the evolution of e-commerce and the maturity of network infrastructure have raised the service expectations of end users. As a result, SLAs define the responsibilities of an IT service provider and the users of that service. The SLA also identifies and defines the services provided as well as the supported products, measurement criteria, reporting criteria, and quality standards for the service.

Due to the newness of the ASP industry, there are few documented or benchmarked trends to serve as industry standards. As awareness of ASP benefits increases, industry experts expect that SLAs will become the leading purchase factor.

In addition to defining SLAs, the ASP must determine what level of service to guarantee to its customers. These decisions should take into consideration the business risk assumed by the ASP for guaranteeing a particular level of service to the end user.

To that point, the white paper's "Industry Survey" presents major results produced by an end-user survey conducted by the ASP Industry Consortium to gauge the importance of SLAs. More than 2,000 professionals representing a wide variety of vertical markets and business leaders participated in the survey.

The end users surveyed report that they outsource a wide variety of applications to application service providers, and they are expected to increasingly employ them for all classes of back office, front office and vertical market applications. Hosted e-commerce, payroll and vertical market systems are expected to be in especially high demand.

The vendors surveyed report that they provide a wide variety of hosted solutions and e-services, with single hosted or outsourced services dominating the others. The number of companies providing e-commerce and IT outsourcing services is expected to increase dramatically by 2002, increasing by 37 percent and 38 percent, respectively. Other outsourced services that are expected to increase by 2002 are messaging (220 percent), professional services automation (62.5 percent) and supply-chain management (60 percent).

The majority of end-user and vendor respondents believed that service level agreements are the best method of ensuring hosting and e-services outsourcing arrangements work to the satisfaction of all parties. Approximately 70 percent of the end-user survey respondents have an SLA in place. This figure is higher than historical industry averages, a reflection perhaps of the self-selecting nature of the survey instrument and the fact that as outsourcing and other IT functions grow more complex, the need for SLAs becomes critical.

In doing so, it is hoped that the ASP industry will use significant customer feedback to analyze SLA performance and provide input to continuous improvement programs. To that effect, the white paper provides four SLA templates:

- Network
- Hosting
- Application
- Customer Care and Help Desk

Each template includes a set of SLA elements, metrics and, whenever available and practical, industry ranges and calculation criteria. For an ASP, three primary measures of success – revenue (sustained and growing), profitability and customer satisfaction – are the rationale for having SLAs that address quality.

The white paper also articulates the dispute resolution clauses necessary for resolving disputes rising from discrepancies between the provided service and end-user expectation. It highlights elements that are important for an end user to have a successful relationship with service providers.

A contract that clearly outlines the rights and obligations of the parties significantly reduces the scope for disagreement to arise in the course of the parties' business relationship. The source of the largest number of disputes is likely to be the gap between the actual performance by an ASP and the performance expected by the end user/customer based on the terms of the underlying SLA. Thus clear, well-negotiated SLAs that are comprehensive and well drafted are fundamental to minimizing the risk of disputes.

However, even the most carefully drafted SLA will not prevent disputes between the parties from arising. There are always unforeseen circumstances or matters where the parties genuinely cannot agree. In such a case, the parties will need to resort to a dispute resolution mechanism. It is advisable, therefore, to have a separate clause referring to dispute resolution. An SLA will generally balance risk with reward, protecting the provider from service failures outside of his control, or rewarding him for assuming risk over which he may not have direct control.

Generally speaking, an SLA which covers only the services over which the ASP has direct control will be much more cost effective than one which attempts to make the ASP responsible for every eventuality. ASP customers should seriously consider all points along the service chain and determine which may result in suspension or invalidation of the SLA.

The white paper concludes with an "SLA Summarization" that captures the SLA elements in a tabular form for easy and quick reference.

## **Acknowledgements**

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