



Service Level Agreements (SLAs) & Performance Measurement

Managing Your Business Through Contracts Managing a business's efficiency, risk, or customer satisfaction—let alone its profitability—is not something most of us would think of negotiating with a service provider. If we were concerned about the quality of the service,

we would likely try to negotiate traditional clauses such as a warranty on the work product, or adherence to professional industry standards or an operational maturity model. We might write a work statement specifying how the work should be done, e.g., software programming methods. Or we would negotiate hard termination rights and damages for lost profits and the cost of having to hire someone else to fix the problems.

But Warranties and hard termination rights just don't work anymore in today's outsourced, complex, knowledge driven business world. You can't return services and you can't instantly cut them off without a lot of self inflicted harm. On top of that, if you are contracting out your businesses processes, you need more than just labor, you need to meet your company-wide key performance indicators (KPIs) and to beat the competition! And if you are selling services, you need a way to set yourself apart and gain the competitive advantage.

Service level agreements (SLAs) are to services contracts what the railroad was to Westward expansion or interchangeable parts were to manufacturing, and that's not an exaggeration. SLAs allow service customers and providers to cooperatively work together on a continuous basis to 1) align services with strategic goals, 2) create value, 3) manage risks, 4) respond to change, 5) improve services, 6) control costs, 7) pursue quality, and 8) govern business relationships.

Wide Use of Service Level Applications Originally used for network data communications, SLAs are now applied to many information technologies and business operations in many vertical industries, including:

- ◆ **Information Technology:** Managed Hosting, Software-as-a-Service
- ◆ **Operations Outsourcing:** Human Resources, Maintenance & Repair, Medical & Legal
- ◆ **Customer Relations:** Call Centers, Customer Satisfaction

Avoiding Taking a Financial Hit It's not difficult to realize how much in actual lost revenues and invisible value leakage can be eliminated with service levels. Think about unavailability of a quote system at the end of a sales quarter. Or an unexplainable decrease in operations performance in a multi-million dollar, long term, global IT outsourcing deal.

Continued on Other Side



SLA Consulting Services James River can add value to services engagements using our “outside the box” SLA approach. Leveraging a client’s own subject matter expertise, James River provides the following:

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SLA Strategic Sourcing Identify service areas, the purpose behind the engagement, and the constraints on SLA implementation (capture, control, competency, costs, compliance). Incorporate SLA strategy into sourcing plan, e.g., vendor proposed.

SLA Product/Proposal Development Specify technical functionality of the service product or solution and the foreseeable risks of delivery. Analyze customer requirements and competing products, and engineering and other constraints (same as above). Draft SLAs and incorporate into marketing literature, contracts and proposals.

SLA Vendor Selection and Negotiation Evaluate vendor SLA measurement and management. Negotiate SLA components (scope, level, measurement, target, period, metric, monitoring, action, tuning, hierarchy). Document SLA processes.

SLA Management and Monitoring Provide independent governance of SLA measurement and reporting including auditing of data collection. Moderate measurement review meetings and facilitate follow through on contractual obligations, e.g., premiums, penalties, target tuning.

SLA Automated Tools Advise on selection and implementation of automated performance measurement software for both on demand technology based and human capital based services.



Schedule an Office Visit We invite you to contact us for a no-charge, no sales pitch visit at your offices.

Eric Esperne, JD, CPCM, President of James River Consulting, has over 15 years experience in the negotiation and management of contracts and the development of contracts management solutions. Eric received his JD from the American University Washington College of Law, his BA from Northwestern University, and has completed LLM course work at Georgetown University Law Center and MS coursework at Drexel University. Eric has been widely published in magazines and periodicals on contract management and contributed a chapter on risk management in outsourcing to the book Greg Garrett, Risk Management for Complex U.S. Government Contracts & Projects (Ashburn, VA. National Contract Management Association). Eric can be reached at 703-850-7061 or eesperne@jamesriverllc.com