



Secrets of Service Level Success

The foundation for a successful service level management strategy for vendors

Overview: This 10-page report leverages over a year's worth of research into service level agreements (SLAs) and service level management (SLM) within the Internet infrastructure sector. In November 2001, we published our first report on this topic, titled *How Good Is Good Enough*, and a version 2.0 of this report was released in September 2002. Plain and simple, SLM remains at the heart of the outsourcing model, and those xSPs that have the best SLM practices have a competitive advantage in today's market. That being said, while our previous reports provided in-depth details about the SLAs and SLM policies currently being offered by leading providers, and reviews of 3^d party SLM solutions, this report synthesizes the most meaningful of these details into a few concise pages that outline the keys to a successful SLM strategy for vendors. Here are some highlights:

- A complete SLM strategy involves defining service level objectives (SLOs) upfront, negotiating and monitoring service level guarantees (SLGs), and drafting and policing the actual SLAs.
- We outline 7 core principles that will help to ensure sound SLM practices for providers. We discuss each of these principles at length and reference our *How Good Is Good Enough* report series for examples and evidence. In a nutshell, these principles include:
 - Providing full, upfront disclosure
 - Being structured but flexible
 - Integrating internal management platforms into a single view
 - Providing customer-facing access to detailed service-related data
 - Making 100% guarantees meaningful
 - Responding fast to service issues but acknowledging them faster
 - Providing penalties with teeth

Tier 1 Research

Joshua Beil (joshua@tier1research.com) Vice President
Andrew Schroepfer (andy@tier1research.com) President & Founder
(763) 694-9992 – September 2002 – www.Tier1Research.com

TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGES</u>
Introduction	3
The A-B-C's of SLM	4
7 Principles of SLM Success	5-8
1. Provide full upfront disclosure	5
2. Be structured but flexible	5
3. Integrate internal management platforms into a single view	5
4. Provide customer-facing access to detailed service-related data	6
5. Make 100% guarantees meaningful	7
6. Respond fast but acknowledge faster	8
7. Provide penalties with teeth	8
About the Authors	9

LIST OF EXHIBITS

Exhibit 1: The Essential Components of a Successful SLM Strategy

Exhibit 2: Industry Average SLGs on Time-to-Acknowledge/Respond/Resolve

INTRODUCTION

Up until the mid-1990s, service level agreements (SLAs) were primarily used by corporate IT departments to set expectations with their internal customers and by larger enterprises to set expectations with traditional IT outsourcers and system integrators. These early SLAs all shared a common purpose – define the services to be rendered, roles and responsibilities of all parties, and outline the consequences of unacceptable performance. While the core purpose of an SLA hasn't really changed, the mushrooming of new companies delivering computing services through the Internet over the past five years has certainly increased the complexity of defining service level objectives (SLOs), negotiating and monitoring service level guarantees (SLGs), and drafting and policing SLAs. In fact, an entire discipline dedicated to these business functions, known as service level management (SLM) has emerged.

Despite recent setbacks in the telecom sector, the outsourced Internet infrastructure model continues to make sense because enterprises should fundamentally be focusing on their core competencies, and reducing or eliminating the need to manage non-strategic technical complexity at the same or reduced internal costs remains a compelling value proposition. However, with customer-facing, partner-facing, and employee-facing Internet infrastructure becoming more and more mission critical, an enterprise is undoubtedly going to require certain levels of performance and want to retain some level of control and visibility into any outsourced service(s). CIOs are faced with the challenge of identifying equally mission-critical SLOs and negotiating SLAs that are meaningful and measurable, and in addition, CIOs deserve and expect access to reports that provide real-time (or near real-time) information describing critical service levels, as well as the ability to analyze service level performance over time. Therefore, a successful outsourced engagement ultimately depends on whether a provider is able to meet or exceed these requirements, and this is the foundation for the importance of a sound SLM strategy.

It is also important to mention that the complexity of SLM is compounded by service providers and infrastructure providers bundling services together into integrated offerings, which may include: network connectivity, data center management, security, storage, hosted applications, and other enabling technologies. For each service in the bundle, the parties involved must clearly define the SLOs between each other and be able to monitor the SLAs at near-real time intervals, while managing their own risk with their own service providers and taking into account the business impacts to their customers.

This report leverages over a year's worth of research into service level agreements (SLAs) and SLM within the Internet infrastructure sector. In November 2001, we published our first report on this topic, titled *How Good Is Good Enough*, and a version 2.0 of this report was released in September 2002. While these previous reports provided in-depth details about the SLAs currently being offered by leading providers and reviews of 3rd party SLM solutions, this report is intended to synthesize the most meaningful of these details into a few concise pages that outline the secrets to a successful SLM strategy.

ABOUT THE AUTHORS

Joshua H. Beil – Vice President, Research and Development

Mr. Beil joined Tier 1 Research in August of 2001 as the VP of Research and Development. He joined the firm from Exodus Communications, one of the leading web hosting providers, where he worked as the Senior Analyst in the Strategic Planning group. Prior to Exodus, Joshua worked at International Data Corporation where he helped to create and maintain the Worldwide PC Tracker web product for the multi-national industry research firm. Mr. Beil holds a Certificate in E-Business from UCSC Extension, and he graduated with honors from the University of California at Santa Cruz with a major in Psychology. Joshua has been quoted in numerous publications including [The Washington Post](#), [CNET](#), [Teledotcom](#), [eWeek](#), [WebHost Magazine](#), [The Web Hosting Industry Review](#), [Host Buzz](#), and [Linux World News](#). He can be reached at (831) 426-2658 or joshua@tier1research.com.



Andrew M. Schroepfer – President and Founder

Mr. Schroepfer founded Tier 1 Research in August of 2000 after four years on Wall Street. Most recently, Mr. Schroepfer was a Vice President and Senior Equity Analyst with Goldman Sachs covering the Internet Infrastructure Services sector. Prior to Goldman Sachs, Andrew was with U.S. Bancorp Piper Jaffray where he covered Communication Service Providers as a Vice President and Senior Equity Analyst. Mr. Schroepfer is an honors graduate of St. John's University having earned a BA in Economics and Accounting. Andrew has been quoted in numerous worldwide publications such as the [Wall Street Journal](#), [Red Herring](#), [USA Today](#), [Web Hosting Magazine](#), [HostingTech](#), [Business2.0](#), and [Inter@ctiveWeek](#). Mr. Schroepfer has also been interviewed on such television programs as CNBC, CNNfn, the Nightly Business Report, and various ABC-affiliate shows. He can be reached at (763) 694-9992 or andy@tier1research.com.



Tier 1 Research – Company Description

The need to manage information has never been as critical and the amount of information available has never been as vast. Tier 1 Research was founded in August 2000 to provide clients with research products that integrate the issues and events of both public and private firms, complimented with access to our analysts and a powerful set of online tools to access specific information when you need to make your critical decisions. We aggregate the perspectives of public/private investors, vendors, and customers to deliver concise analysis and recommendations. Starting with coverage of the Internet Infrastructure Software and Services market, this strategy empowers institutional investors, venture capital partners, corporate executives, as well as sales, marketing, and technical personnel to make better decisions with superior, unbiased intelligence. We deliver this strategy through daily, hands-on, global, strategic and financial analysis of news and information from all angles of the industry. Tier 1 Research has partnerships with AFCOM, Jaywalk, and Ramprate. The firm is based in Minneapolis, MN.



The screenshot shows the Tier 1 Research website in a Microsoft Internet Explorer browser. The address bar displays <http://www.tier1research.com/tier1/>. The website features a green and white color scheme with a navigation menu including 'Company', 'Samples/Purchase', 'Purchase | Samples | Free Trial Registration | Knowledge Center', 'Research Services', 'Online Services', 'Media Center', and 'sitemap'. A 'Client Log In' form is visible on the left with fields for 'Username' and 'Password', and a 'Log In' button. The main content area highlights 'Ultimate Advantage' with the text: 'For all research products, full online access, and consulting time with our analysts, the Ultimate Advantage is right for you.' Other sections include 'Purchase Reports', 'Sector Info eXchange', and 'What We Provide'. A news ticker at the bottom displays market data: '1.76 -0.15 ... INLD 3.07 +0.11 ... INIT 0.13 -0.01 ... BRW 3.82 +0.12 ... XOXO.OB 0.05 NC ... DRIV 6.52 +0.42 ... CRIO 1.22 -0'. Below the ticker are several news snippets: 'zoomerang SURVEY', 'Netzee selects Internet Security Systems', 'Discussion Boards', 'Event Keeper', 'Security Utility Computing', and 'Report Profile'. The footer includes 'Site Powered By' with logos for Microsoft and AOL, and the address '5547 Trenton Lane Plymouth, MN 55442'. At the bottom of the green frame, the text reads: 'VISIT US AT WWW.TIER1RESEARCH.COM PLYMOUTH, MN (763) 694-9992'.

© December 13, 2002. This material is for your private information, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. This material is for general information only and should not be read as containing advice or recommendations. It has not been prepared taking into account any investor's particular investment objectives or needs. Any investor should consider whether the information is appropriate to their needs or seek advice before making an investment decision based on this information. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Opinions expressed are our current opinions as of the date appearing on this material only. We, including persons involved in the preparation or issuance of this material may, from time to time, have long or short positions in, and buy or sell, the securities, or derivatives (including options) thereof, of companies mentioned herein. No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without Tier 1 Research's prior written consent.