

OUTSOURCING
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EDITIONS

Back To Basics In IT- Outsourcing Part One: SLA

By Piotr Rutkowski, Managing Partner of SourceOne Advisory,
Poland

How is a SLA contract constructed? What differs SLA from KPI? How to properly construct a catalogue of outsourcing services? What penalties are worth incorporating in an outsourcing contract? With this article we start "BACK TO BASICS IN OUTSOURCING" a new cycle of educational publications about IT outsourcing agreements by Piotr Rutkowski, Managing Partner of SourceOne Advisory.

IT outsourcing already became a commonly used business tool, thank to which managers optimize their IT operations and business processes of the enterprise. Does it mean we have an in-depth knowledge how to optimally and safely implement outsourcing in our own companies? On the side of the suppliers – certainly yes. On the side of buyers – not necessarily.

Talking from my professional experience (as an advisor in such projects and a lecturer on postgraduate studies in two renowned universities) I can say that, even the basic knowledge of outsourcing is still heavily lacking. I'm not saying about skills of building advanced outsourcing contracts with a broad scope of services, including takeover of large groups of employees and purchasing significant IT assets, at all.

What I'm talking about is a full understanding of completely elementary concepts and mechanisms used in outsourcing, for instance the question of distinguishing KPI and SLA. Please believe me, not more than 20-30% of people with whom I talk to (all of them being business practitioners, not students!) is able to correctly answer my question, what is KPI and what is SLA!

So, let us get back to the basics and together think of the description of the quality of services in out-

sourcing contacts and let's define those basic terms.

While giving away some part of the IT operations or process of our company to be serviced by the outsourcer we must overcome in us the urge to force on him the "how" it should be done. The core of the outsourcing relation is paying (or penalising) of the supplier for reaching (or failing to reach) pre-agreed between the sides goals of the service. Contract as such should describe the goals not the way the service should be done by the outsourcer. This in turn means that the key in such a contract is valuation of the quality of the service delivered by the outsourcer. That is enabled if in our contracts we implement effective SLA model.

Building of such a model we begin with something else – from detailing the scope of the service. Agreeing on "WHAT?" the outsourcer must do, should be the first stage of building the contract (we will get back to building a service catalogue in the next of our BACK TO BASICS articles cycle).

To specific services from the service catalogue (sometimes to all services) we attach additional parameters, those we

call KPIs (Key Performance Indicators). Those are the parameters, which describe our expectations and business needs as a client. Those are not the parameters, which describe the quality of the service delivered by the outsourcer!

Examples of KPI thus can be:

- Bandwidth of the telecommunication connection
- Manual backup time completion
- Incident resolution time
- Server installation per change request
- Unblocking user account per client's request

After fulfilling above tasks, then in the next step we describe the SLA (Service Level Agreement) model inserting a set of additional parameters, which will be definitely describing the quality of the services of the outsourcer. For example if we agreed that time for the full data restore should be not more than 90 minutes, then the quality of the service would be determined by the percentage of the data restores that would be completed by the outsourcer in the agreed time scale in the settlement period (usually a month).

We agree with the service provider (still an example!), that

if 95% of data restores in a month were generated within 90 minutes then the service is delivered correctly and we pay the outsourcer a full monthly payment. If the outsourcer fits in the region between 70% and 95% then he has to pay a fine, for example 1% of the monthly contract value for every 1% of the service quality below 95%. If the number of data restores in the agreed timescale falls below 70% then the client (again just an example) has the right to double the fine and terminate the contract immediately with the fault on the side of the service provider.

Simple? Of course!

Obviously a SLA contract should incorporate much more elements than the known to us all "five nines of IT system availability", but without understanding of the fundamentals of building SLA there is not much point in going further.

See you soon in the second article of the „Back to Basics in outsourcing“ series in which I'm going to discuss with you the issue of constructing the proper IT services catalogue.



The author: Piotr Rutkowski, Managing Partner of SourceOne Advi-

sory (www.sourceone.pl/en/), for 20 years in business and 15 years of experience in outsourcing industry. Advised on outsourcing projects worth up to \$100 million for many reputable customers like T-Mobile, DHL, ING Bank, HDI, Polish Television, Polish Railways, Polish Post, PZU, Polkomtel, PKN Orlen, Energa, Raben, Pinebridge Investments, AmRest. Laureate of many outsourcing industry awards. Author of numerous pub-

lications in the field of outsourcing and sourcing. Lecturer on outsourcing, sourcing strategies and procurement at Warsaw School of Economics and Kozminski University. In 2006 created and has since managed his own independent consulting company SourceOne Advisory (www.sourceone.pl/en/), specializing in outsourcing consultancy and supporting IT procurement processes. > Contact