Oblicore™

2007 Service Level Management Survey:
Results, Trends and Analysis

May 2007

Oblicore, Inc.

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Executive Summary

In 2003, 2004 and 2005, Oblicore, the leading provider of Service Delivery Management software, conducted research studies to measure enterprise and service provider best practices, trends and usage for service delivery management. In 2007, Oblicore repeated this research effort. This latest edition of the research explores usage and management of service level agreements, operational level agreements and underpinning contracts to manage service delivery operations. Results were also compared with previous research results to determine longitudinal trends in service delivery.

Key findings include:

- Service Delivery Management, once thought of as the domain of Early Adopter companies, has become prevalent with mainstream companies as well (86% of these companies use SLAs).

- Organizational use of service delivery agreements for managing suppliers, internal agreements, and external, customer agreements remains ubiquitous (91% of organizations); however, internal usage of this function has grown significantly with 84% using SLAs for managing internal operations (up from 60% in 2005) and 88% using SLAs for managing outsourced business and IT processes (up from 57%).

- Companies have seen growth in the usage of service delivery agreements over the past 12 months. This increase has been most prominent in the use of service delivery agreements for managing outsourced services and internal operations.

- Respondents anticipate even higher growth in company usage of service delivery agreements in the next twelve months. Again, this trend is most prominent in service delivery agreements to manage outsourced services internal operations.

- Companies are responding to the increasing volume and usage cases of service delivery agreements by manually monitoring and managing these agreements. In fact, using manual processes to manage SLAs has risen sharply (29% to 45%) since 2005.

- These manual processes are clearly ineffective for most companies. While companies rate "the need to understand the business impact of service delivery" and "the need to improve service delivery management" as the most importance drivers of Service Delivery Management (52% and 43% respectively rate as "very important"), they simultaneously rate the company's effectiveness at managing these processes very low (only 13% and 9% as "very effective").

- This focus on manual processes is labor intensive as companies have generally increased the number of SLA management personnel

(4% with 10 or more dedicated personnel in 2005 to 31% in 2007).

- As a potential external driver, use of the IT Infrastructure Library (ITIL) as a potential service delivery framework has risen sharply (46% in 2005, 87% in 2007).

- There is a significant perception gap between service providers and service consumers with 66% of suppliers indicating that they meet agreed upon service delivery agreements more than 90% of the time but with only 40% of service consumers indicating that they receive services at this level.

- With over ¾ of companies (77%) outsourcing, either IT, or business services, use of this business solution remains common. As indicated above, service performance is seen to be lacking for outsourced processes; moreover, 63% of companies indicate that when outsourcing relationships fail to meet service level objectives, there are tangible financial implications to the company (reduced productivity – 59%, increased downtime – 57%, increased labor costs – 29%, incurred financial expense – 30%).
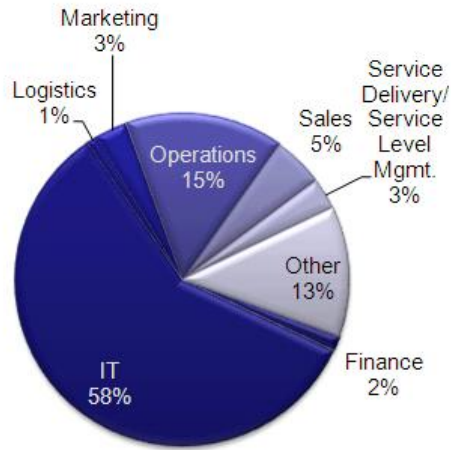
The SLA Management Survey

Since its inception in 2000, Oblicore, the leading provider of Service Delivery Management software, periodically conducts a research study of SLA Trends and Usage. Oblicore has conducted these research efforts in June 2003, July 2004, and October 2005. In January 2007, Oblicore launched the latest version of the questionnaire. Objectives of this research were to measure and understand:

- How enterprises use service delivery agreements within their operations
- How IT and business service outsourcing is managed
- How service delivery agreements are leveraged for internal commitments
- How service delivery agreements are leveraged for external customer commitments
- How organizations manage the daily operation of Service Delivery Management
- The role of technology plays in managing service delivery
- The drivers for service delivery and how effective organizations are at managing these drivers
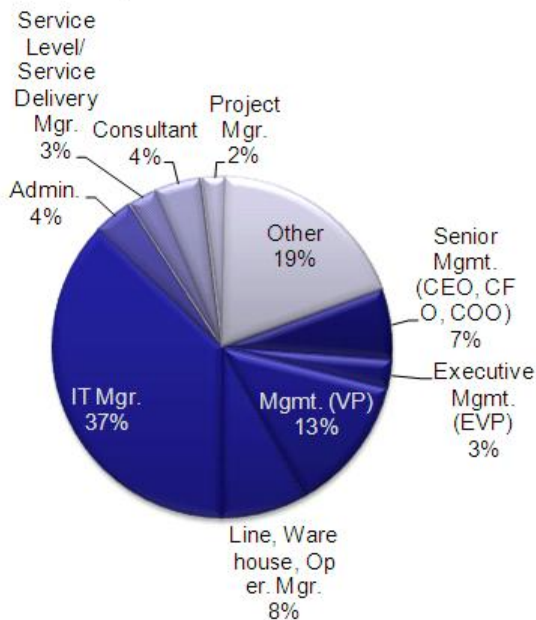
Invitations and screening

Oblicore sent email invitations to a sample list. This list was assembled from lists purchased from leading data companies and from Oblicore's

Functional Responsibility

Marketing 3%
Logistics 1%
Operations 15%
Sales 5%
Service Delivery/ Service Level Mgmt. 3%
Other 13%
IT 58%
Finance 2%

n = 483

Respondent Title

Service Level/ Service Delivery Mgr. 3%
Consultant 4%
Project Mgr. 2%
Admin. 4%
Other 19%
Senior Mgmt. (CEO, CFO, COO) 7%
IT Mgr. 37%
Mgmt. (VP) 13%
Executive Mgmt. (EVP) 3%
Line, Warehouse, Oper. Mgr. 8%

n = 483

internal list. Invitees were offered a copy of the of the questionnaire report and were placed in a drawing for an Apple iPhone. Respondents were only allowed to respond once and were screened for familiarity with organizational usage of service delivery agreements.

Questionnaire content

The survey device was divided into two parts: the main service delivery questionnaire and a "branching section" wherein the respondent was asked specific questions pertaining to usage of service delivery agreements with outsourcers, internal commitments, and external commitments.

Within the main service delivery questionnaire, respondents were asked content pertaining to organizational responsibilities for service delivery; usage of service delivery agreements with outsourcers, internal "customers" and external customers; drivers and effectiveness of Service Delivery Management; the process for managing of SLAs, and use of Frameworks and Standards (e.g., ITIL). In addition, respondents were asked to provide company and respondent demographic information.

Driven by responses to types of SLAs used within the company, respondents were also asked to fill out one of four content areas: SLA usage with outsourced services, SLA usage with internal customers, SLA usage with external customers, and rationale for no SLA usage. Each content specific section covered usage trends, reporting frequencies, and reporting effort.
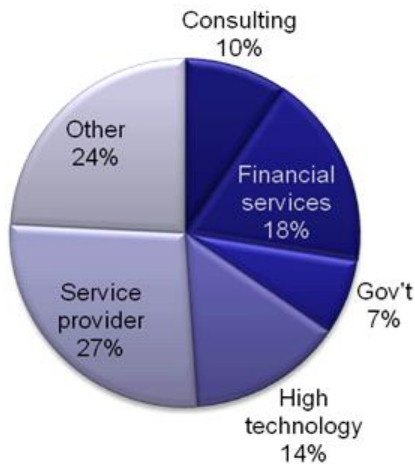
Number of respondents

In total, there were 832 respondents to the questionnaire with 483 who completed it entirely. For the content specific sections, the number of responses was as follows:

- Outsourcing Section - 226
- Internal Customer Section - 94
- External Customer Section - 108
- No SLAs Section - 114

While the confidence interval varies by the number of responses to an individual question, this interval generally was between ± 3.57 and ± 4.44 at a confidence level = 95%.

Primary Industry Sector

Consulting 10%
Other 24%
Financial services 18%
Service provider 27%
Gov't 7%
High technology 14%

n = 483

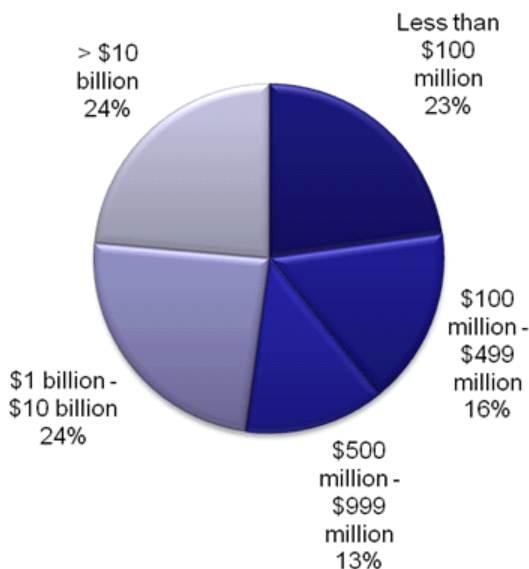## Questionnaire Demographics

Respondent Demographics

Questionnaire respondents represented both a wide variety of titles and oganizational roles. There was a heavy representation of IT related roles within the response base; however, there were also a large number of "business" focused respondents. In addition, the historical focus on IT as the domain owner for service level and service delivery, supports a heavy representation of IT within the response base.

Company Demographics

The companies represented in this research effort came from a broad spectrum of company types. There were significant numbers of Service Provider (27%) and Financial Services (18%) companies; however, the overall distibution of industries is broad with no single industry sector representing more than 30% of the overall response base.
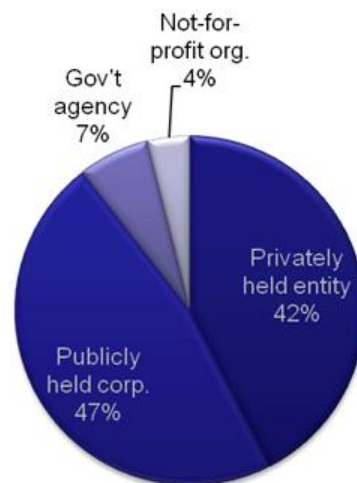
Similarly, companies of many different sizes were distributed across the response base. As measured by the respondent's company's annual revenue, companies ranged evenly from those with revenue of less than $100 million (23%) to those with revenue greater

Company's Annual Revenue for 2006

> $10 billion 24%
Less than $100 million 23%
$1 billion - $10 billion 24%
$100 million - $499 million 16%
$500 million - $999 million 13%

n = 483

Company Ownership

Not-for-profit org. 4%
Gov't agency 7%
Privately held entity 42%
Publicly held corp. 47%

n = 483

than 1 billion (24%).

Respondent companies were largely publicly held (47%) and privately held (42%), for-profit enterprises. Government agencies and Not-for-Profit organizations were lightly represented with 11% of the repondent companies coming from these two categories.

Finally, with 37% percent of respondent companies geographically headquartered in North America and 52% headquartered in Europe, the respondent customer base respresents the trends and usage in these two geographies more closely than Asia (9%), Africa (1%) and Latin America (1%).

Company Headquarters

North America 36.7%
Europe 52.7%
Asia 9.0%
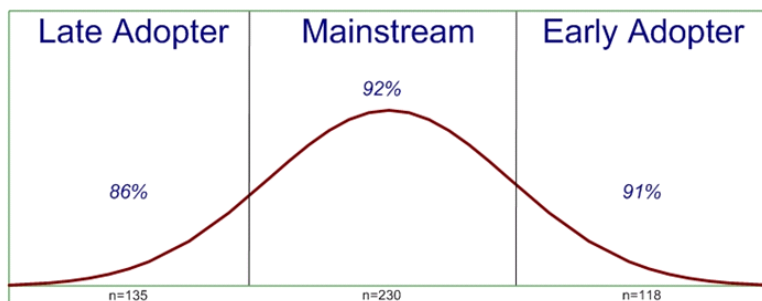Africa 1.0%
Latin America 0.6%
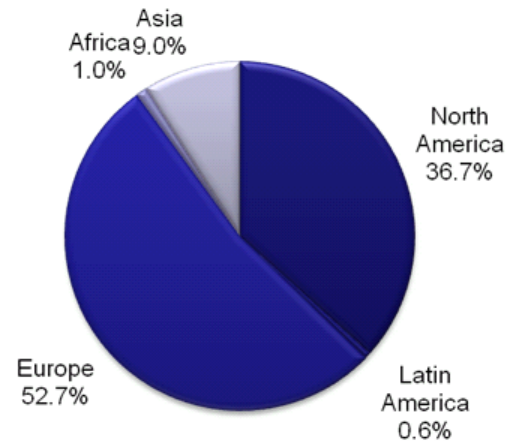
n = 480

Use of Service Level Agreements

Once the domain of "Early Adopter" companies (organizations that tend to adopt technology before other companies), SLA Management has moved firmly into the mainstream. At 92% and 86% of "Mainstream" companies (companies that tend to adopt technology at about the same time as other companies) and "Late Adopters" (companies that tend to adopt technology after other companies have adopted it) respectively of making use of SLAs, it is clear that the adoption of Service Delivery Management as a discipline has become common practice.

Company's Technology Adoption

Late Adopter	Mainstream	Early Adopter
86%	92%	91%
n=135	n=230	n=118

It is, therefore, not surprising to note that, in aggregate, organizational usage of SLAs has remained high. On the company level, with 91% of respondents reporting that their company uses service level agreements, SLAs usage remains relatively level as compared to October 2005. Similarly, organizational usage of SLAs as a means of measuring customer obligations is both widespread and level with 2005. For companies that do not use SLAs, 9% are in the process of implementing them and over half (53%) do not leverage them due to the perception that they are a poor fit to, either the management of
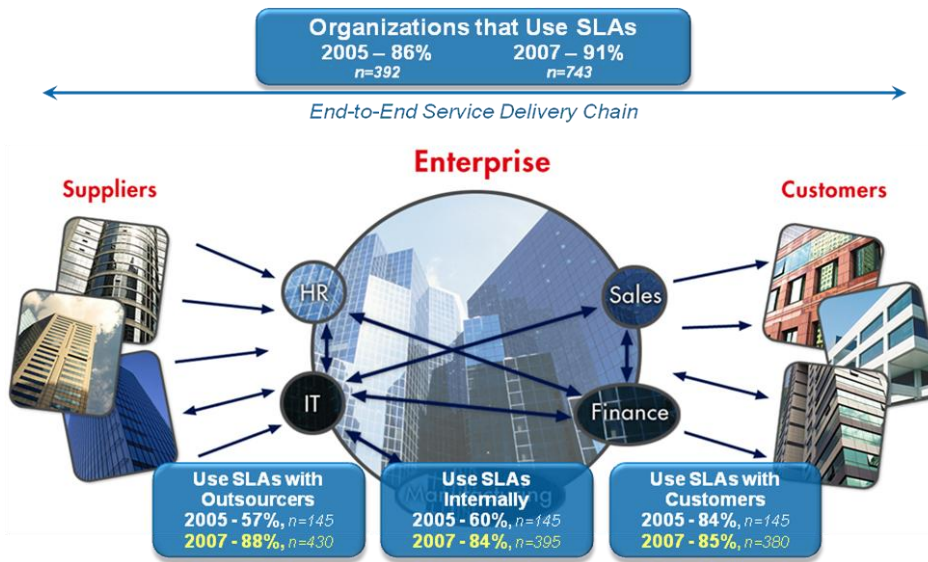
Figure 1: Usage of Service Level Agreements across the Service Delivery Chain

the business, or to their customer base.

Interestingly, while usage at the corporate level and with customers has been constant, there have been sharp increases in SLA usage to measure both services provided to the enterprise by outsourcers (57% in 2005 to 88% in 2007) and those provided internally (60% to 84%) within the company. This is indicative of companies finding broader applications for the Service Delivery Management process within the End-to-End Service Delivery Chain (the network of service obligations that enable an organization to operate is business and provide services to external companies).

Mirroring the trend for where SLAs are used, a significant proportion of respondents also reported growth in the number of SLAs their companies
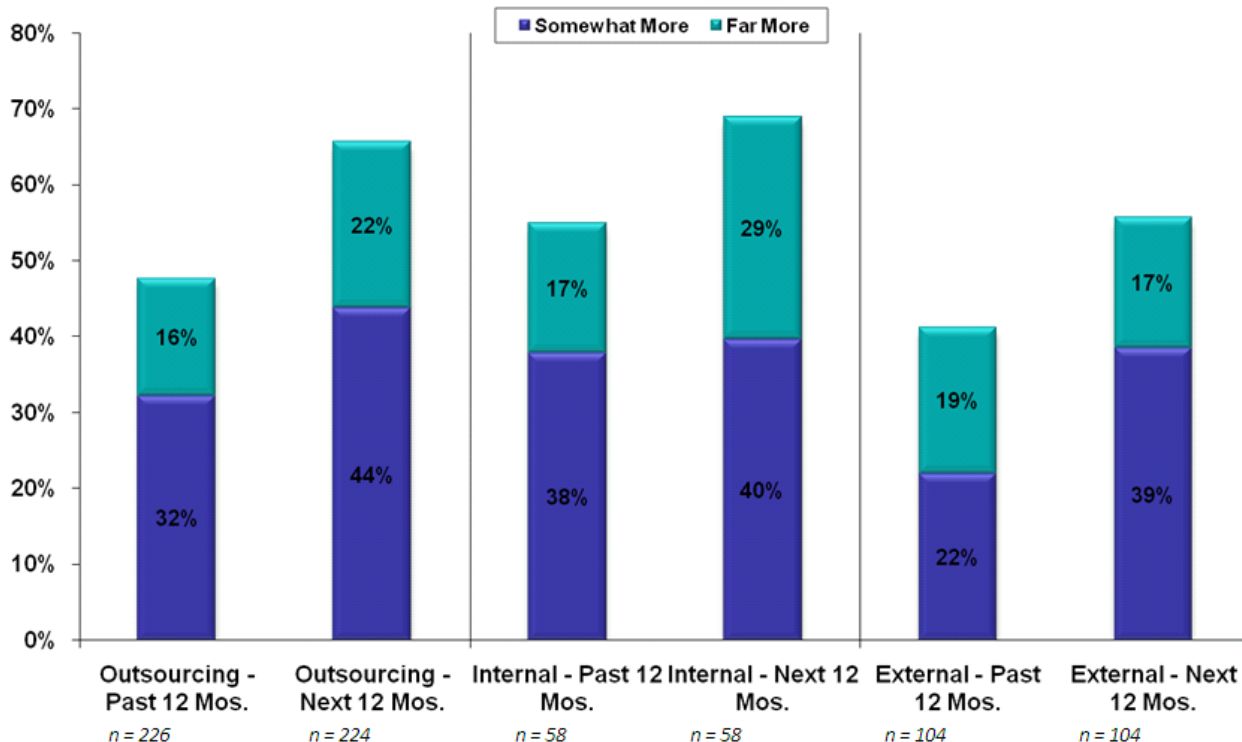
managed. Over the past twelve months 48%, 55% and 41% of companies have reported an increase in the number of SLAs managed for outsourced services, internal operations and external offerings respectively. A large number of respondents also reported that SLA usage will increase within the next twelve months. While this trend is applicable across applications of Service Delivery Management, it is most notable for outsourced services and services offered internally where two-thirds of respondents (66% - Outsourced Services, 69% - Internal Services) reported that the number of SLAs will increase "somewhat more" or "far more" in the next twelve months.

Despite the broad usage of SLAs and the momentum behind a wider usage of SLAs within the enterprise, the "snapshot" of the degree to which SLAs have been leveraged today is interesting and surprising. While SLAs are widely used with outsourcers, internal customers and external customers, there is still variation in how entrenched the usage is between these constituencies. Within each group, there is a significant (…and growing) proportion of companies that use a small number of SLAs to manage outsourced relationships, internal services and external obligations.

This trend is most substantive with the two groups that have shown the most growth in terms of company usage since 2005 with 50% of all respondents reporting that their company uses 10 or fewer SLAs to manage outsourced relationships and 39% of respondents using 10 or fewer to manage internal SLAs. As companies apply Service Delivery Management to a wider array of business purposes within their organizations, it is clear that they are

SLAs Currently In Place

2005 - n = 145
2007 - n = 378, 330, 321
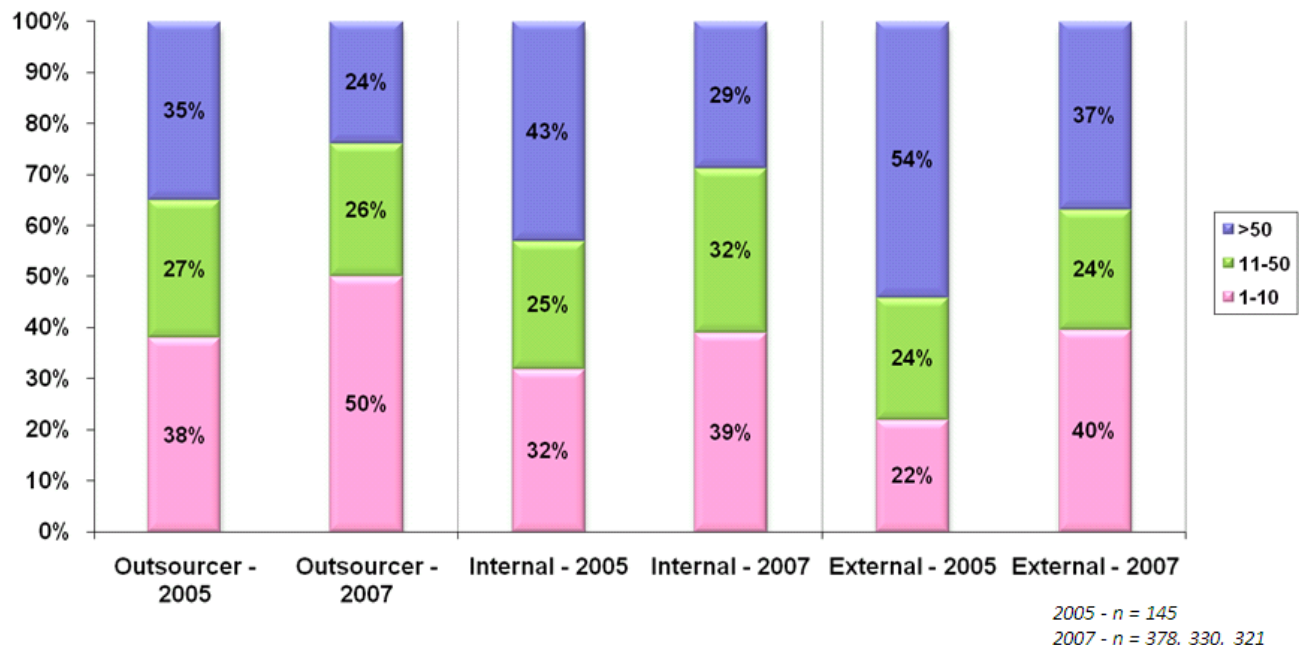
taking initial steps in manage this process.

For organizations that use SLAs to manage services offered to external customers, there are two conflicting trends. As with internal SLAs and outsourcer SLAs, there has been an increase in the proportion of companies that use a small number of SLAs to manage customer relationships; however, this trend continues to be offset by an almost equivalent number of companies that use more than 50 SLAs to manage customer obligations. This dual concentration can largely be attributed to the large number of service providers who use SLAs to manage externally offered services. This population showed a heavy concentration (57%) of companies that use 50 or more SLAs to manage external relationships. Because of the nature of the service provider delivery model, a higher proportion of SLAs were used with external customers in the overall population. When these service provider companies are factored out, the distribution mirrors that of the other SLA applications.

Underlying Drivers for Service Delivery Management

When asked about the potential drivers of service delivery, respondents indicated that companies place a great deal of importance on the company's ability to understand the business impact of service delivery (52% of respondents identify as "very important") and on the company's

Importance of Service Delivery Drivers & Effectiveness of the Company at Managing Them
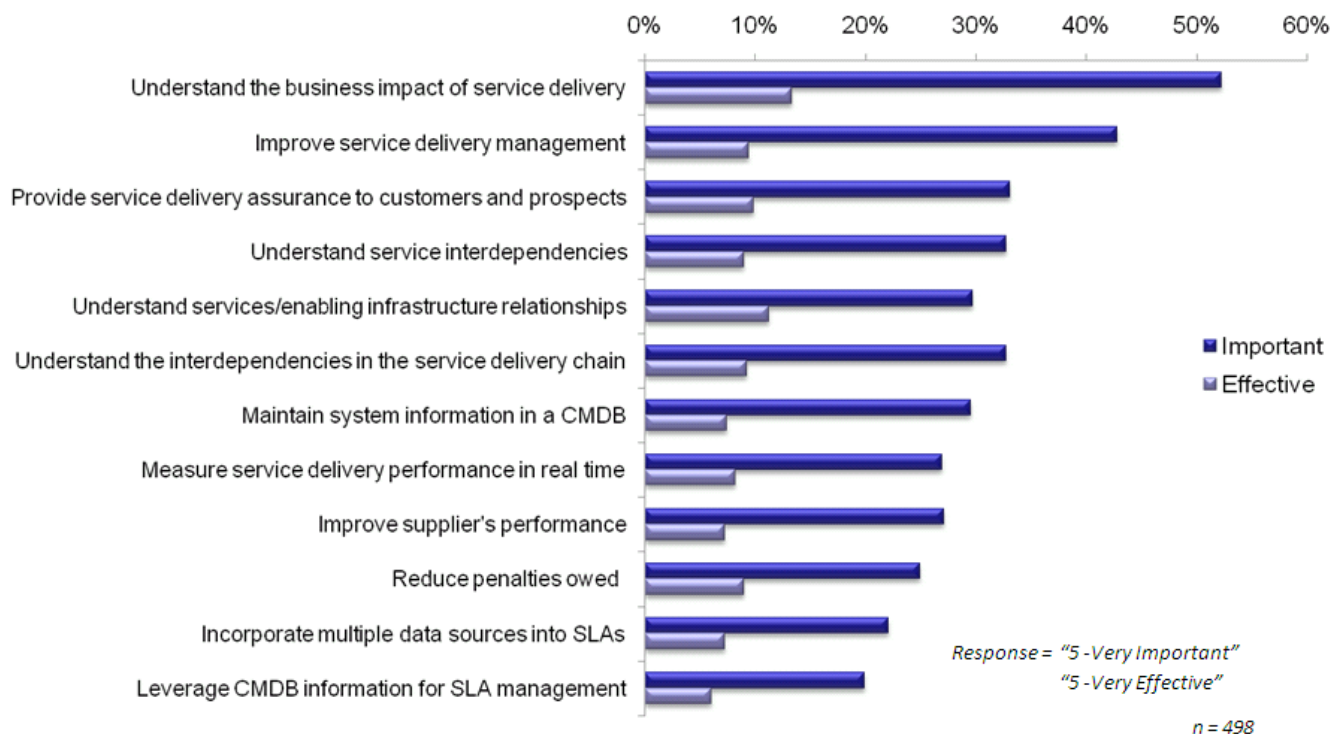
ability to improve service delivery management (43%, "very important"). By contrast, companies place the least amount of importance on the need to incorporate configuration management database information (20%) and the need to incorporate multiple data sources within the calculation of SLAs (22%).

Regardless of the driver, there is a large differential between the importance of service delivery drivers and the company's effectiveness at managing these issues. In general, respondents rated their company's effectiveness at managing service delivery drivers very low (ranging from 6% who see their company as "very effective" at leveraging CMDB information for SLA management to 13% who rated their company as "very effective" at understanding the business impact of service delivery). Alarmingly, this gap is more pronounced for the drivers that are the most core to managing service delivery. This differential (the difference between drivers rated as "very important" and companies that are rated as "very effective" at managing them) is most extreme for the most important drivers (39% differential for "understand the business impact of service delivery" and 34% differential for "ability to improve service delivery management").

Use of Frameworks

As Service Delivery Management has become more widely accepted into the mainstream of organizational operations, a number of IT governance and IT best practice frameworks have emerged which include processes for SLAs. The most common of these are the IT Infrastructure Library (ITIL), ISO 20,000, Control Objectives for Information and Related Technology (COBIT), Enhanced Telecom Operations Map (eTom), and eSourcing Capability Model (eSCM).

Overall, ITIL is the most commonly adopted framework. This adoption rate continues a historical growth trend. In October 2005, we observed a 46% adoption rate for this IT best practice framework. Within this fifteen month period the framework has grown to over 87% (a 79% CAGR) indicating a sharp rise in adoption of these standards.

While annecdotal, Oblicore sees this rapid adoption of ITIL as a potential driver to internally focused Service Delivery Management. With its focus on facilitating the delivery of high quality information technology (IT) services, ITIL tends to be both internally directed and focused on "what" (rather than "how") a company should do. As companies balance the various aspects

Adopted Standards & Frameworks

n = 480

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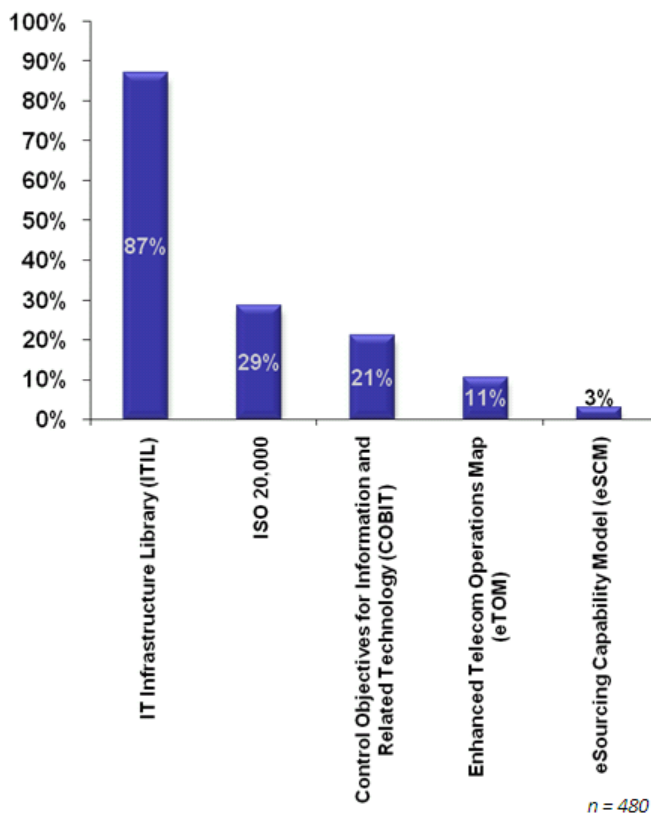
of which ITIL processes to implement (e.g., change management, service catalog, etc...), companies are putting the basic SLA structures in place often with manual processes to support them.
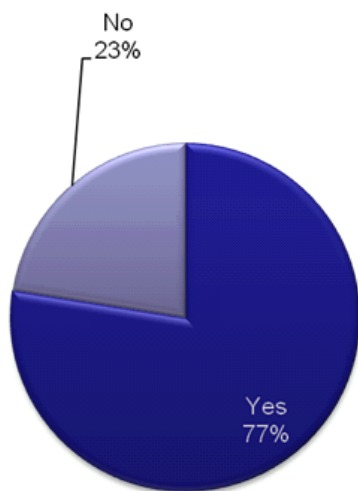
At 29% and 21%, ISO 20,000 and COBIT also are leveraged by a significant minority of of companies. At 11%, eTOM is lightly adopted as a standard. Due to the telecommunications specificity for this best practice framework, it is likely that there are pockets of higher concentration within the telecommunications industry.

Interesting, despite the increased focus on outsourcing and multi-sourcing strategies, eSCM is lightly adopted. This likely reflects the relative immaturity of the governing business processes that enterprises are leveraging to manage these relationships.
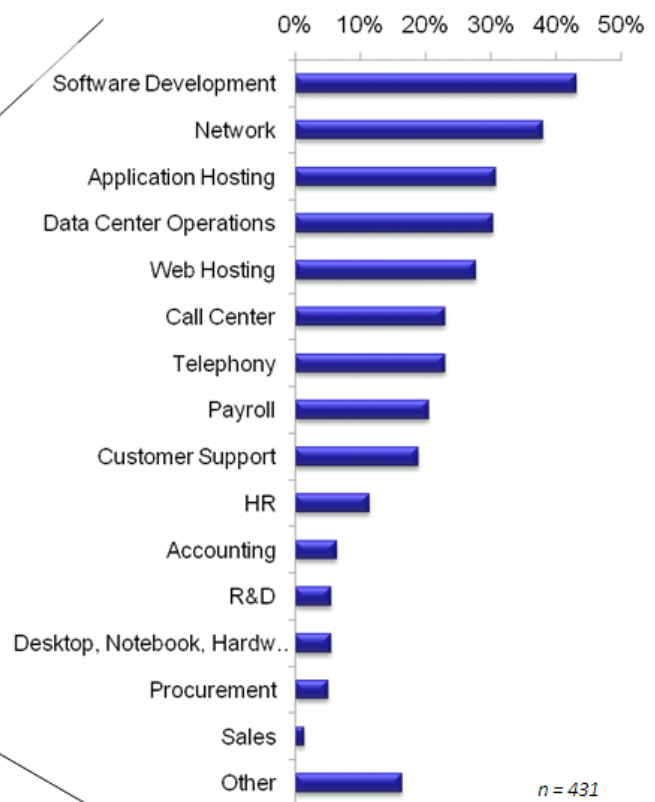
Business Service Outsourcing

With a number of research papers pointing to the rapidly growing use of outsourcing,[1] it is not surprising that over ¾ of respondent companies (77%) outsource either IT services or business oriented ones. Some of the more traditional IT services (e.g., Software Development [43% of companies],

Outsource IT or Business Services

No 23%
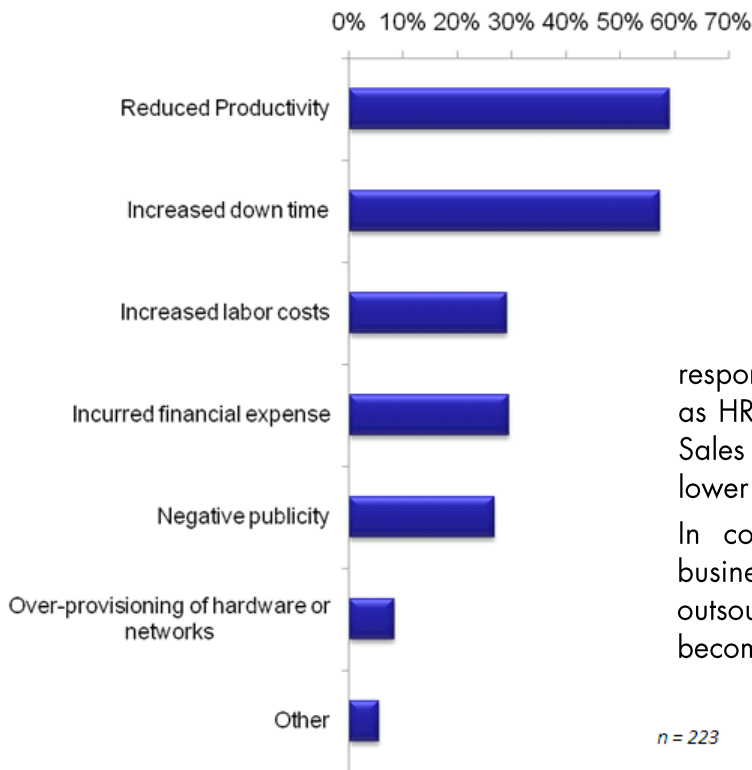
Yes 77%

n = 578

Business Services Outsourced

0% 10% 20% 30% 40% 50%

Software Development
Network
Application Hosting
Data Center Operations
Web Hosting
Call Center
Telephony
Payroll
Customer Support
HR
Accounting
R&D
Desktop, Notebook, Hardw..
Procurement
Sales
Other

n = 431

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[1] See, for instance, **Computer Economics: Growth of IT Outsourcing: No End in Sight,**
http://www.computereconomics.com/article.cfm?id=1161.

Effect of Supplier SLA Non-Compliance on Business

0% 10% 20% 30% 40% 50% 60% 70%

Reduced Productivity

Increased down time

Increased labor costs

Incurred financial expense

Negative publicity

Over-provisioning of hardware or networks

Other

n = 223

Network [38% of companies], Application Hosting [31% of companies], and Data Center Operations [30% of companies]) are the most broadly outsourced services; however, companies are clearly outsourcing both IT services and business services extensively. Outsourcing business-oriented services (e.g., Call Center [23% of companies] and Payroll [21% of companies]) has become common among a significant minority of the respondents' companies. For business processes such as HR [11%], Accounting [7%], Procurement [5%] and Sales [1%], adoption of outsourcing is significantly lower with only HR making significant inroads to date.

In conjunction with becoming a more mainstream business function, the potential negative effects that outsourcing can have on the business also have become substantive. Over half (63%) of companies indicate that when outsourcing relationships fail to meet agreed upon service level objectives, there are tangible financial implications to the company (Reduced Productivity – 59%, Increased Downtime – 57%, Increased Labor Costs – 29%, Incurred Financial Expense – 30%).
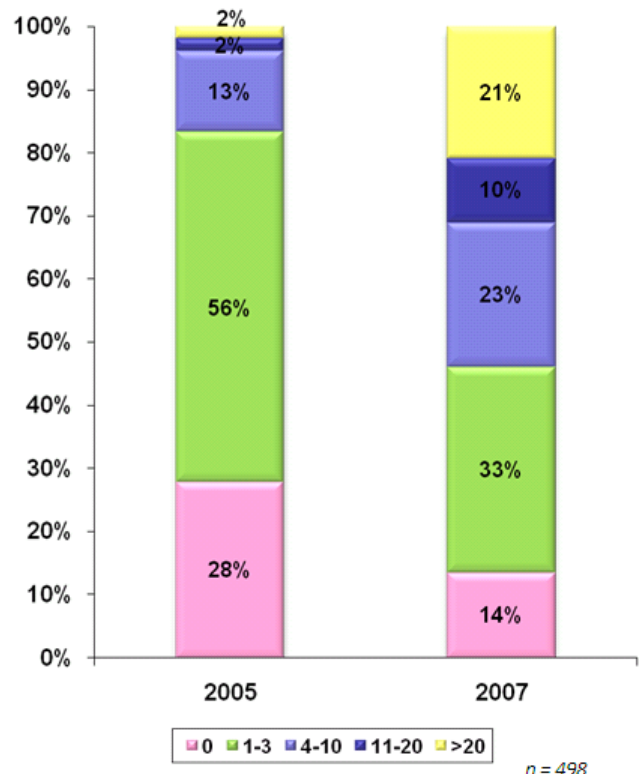
Management of Service Level Agreements

Given that companies are making use of service delivery agreements to manage a wider array of business processes, it was somewhat surprising to observe that these companies are struggling with the day-to-day management of this function.

As compared with 2005, there has been a general increase in the number of personnel allocated to the management of service delivery agreements. Where, in 2005, only 4% of companies used more than ten full time personnel to manage service delivery agreements, this proportion had grown to almost a third (31%) by 2007. Similarly, the proportion of companies that used a moderate number (4 to 10 full time

Number of Personnel Dedicated to Monitoring and Managing SLAs

	2005	2007
>20	2%	21%
11-20	2%	10%
4-10	13%	23%
1-3	56%	33%
0	28%	14%

■ 0 ■ 1-3 ■ 4-10 ■ 11-20 ■ >20

n = 498

Organizational Responsibility for Managing SLAs
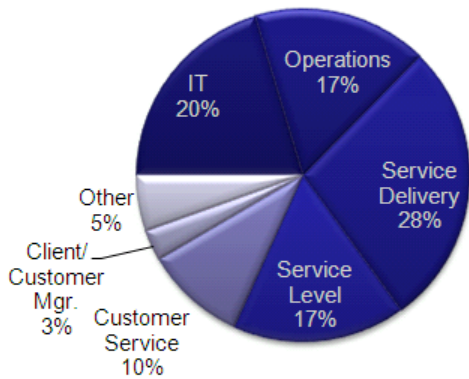
n = 578

Solutions Used for Monitoring & Managing SLAs

- Manual process
- Internally developed reporting app.
- Commercial SLM Solution
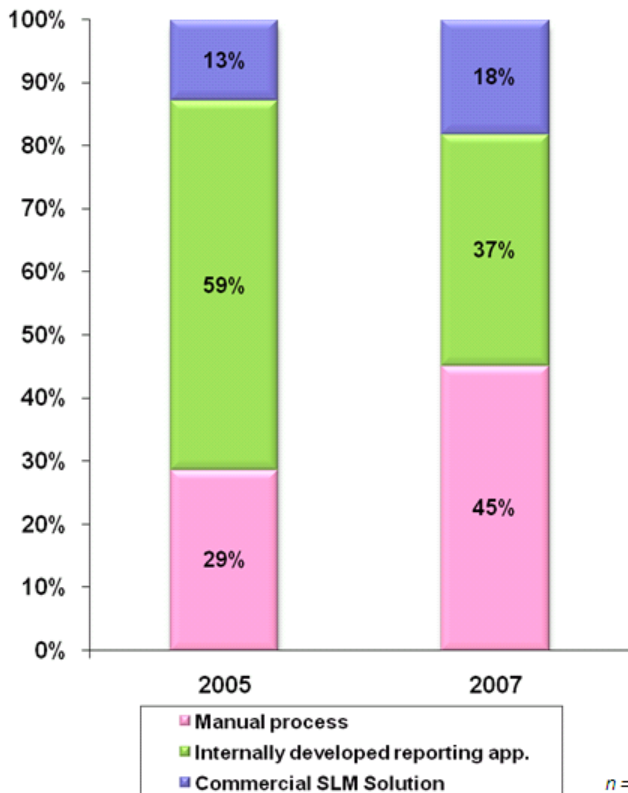
n = 498

personnel) grew significantly (13% to 23%) in that period. By contrast, the proportion of companies that had a small amount (1-3 full time personnel – 56% to 33%) and the proportion of companies that had no full time personnel allocated to Service Delivery Management (28% to 14%) both decreased significantly.

In addition to the increasing number of personnel allocated to the management of service delivery, management of this process from an organizational perspective is highly varied. While 45% of companies have established either a service level management function with organizational responsibility for managing SLAs, the majority of companies have the Service Delivery Management reponsibilities managed by more traditional operating units. When reponsibility is managed in this way, they are most often handled by Operations (17%) or IT (20%). This variablity of reporting structure is indicative of business processes that are either variable or, at worst, are poorly defined.
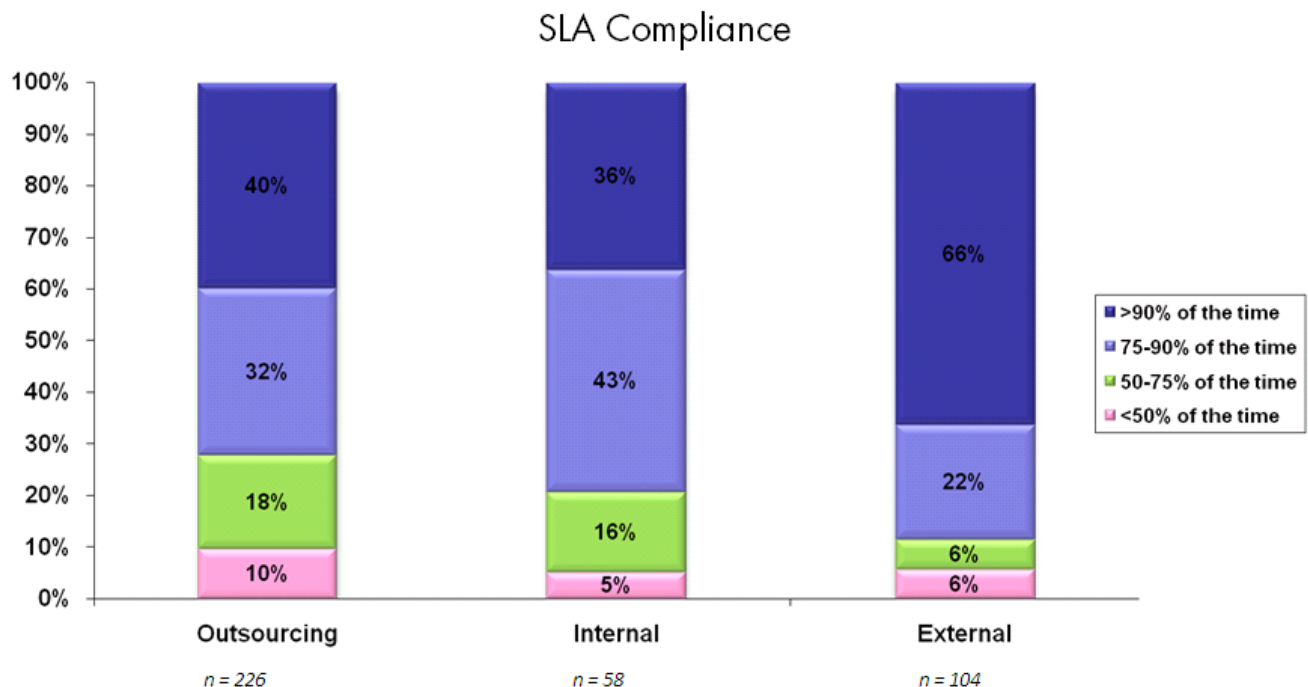
With the growing resource allocation given to Service Delivery Management and the perception that the number of service delivery agreements will grow in the next twelve months, it was surprising to note that the proportion of companies that use manual processes to manage service delivery agreements has grown (from 29% of companies to 45% of companies). The use of commercial solutions has also shown significant growth; however, when combined with the growth in the number of dedicated personnel, it is clear that companies are leveraging investments in human capital to administer Service Delivery Management. Oblicore attributes this growth in manual Service Delivery Management to the increasing application of these processes within the organization without necessary processes and technology to support them.

SLA Performance

Despite an increasing number of dedicated personnel allocated to the management of service delivery agreements, organizations are struggling with this function. With these agreements expected to increase, respondents indicate that these SLAs are often not met, few data sources are incorporated and reports are often delivered late.

With 60% of SLAs for outsourced services and 64% of SLAs for internal services missed 10% of the time or more, companies are clearly struggling with the delivery of internal service delivery and in managing the services provided to the company. The SLAs are far more likely to be met when they are between the company and external customers (66% of companies

SLA Compliance

Legend:
- ■ >90% of the time
- ■ 75-90% of the time
- ■ 50-75% of the time
- ■ <50% of the time

	Outsourcing	Internal	External
>90% of the time	40%	36%	66%
75-90% of the time	32%	43%	22%
50-75% of the time	18%	16%	6%
<50% of the time	10%	5%	6%
	n = 226	n = 58	n = 104

report they comply with SLAs 90% of the time or more) than with either internal customers or from service providers. This trend is even more pronounced when the company is a service provider (81% of companies comply 90% of the time). Since the outsourced services that enterprises manage are presumably the mirror image of those that, either companies, or service providers provide, there is clearly a wide perception bias between services received and services provided.

To manage these SLAs, companies primarily use component tools (Help desk tools, system management tools, application management tools, network monitoring tools) as data sources for measuring and reporting service level agreements. When used for SLAs with external customers, a significant minority of companies also make use of business applications proprietary systems. It is interesting to note that companies, on average,

Data Sources Used to Determine SLA Compliance

Internal n = 58
External n = 104
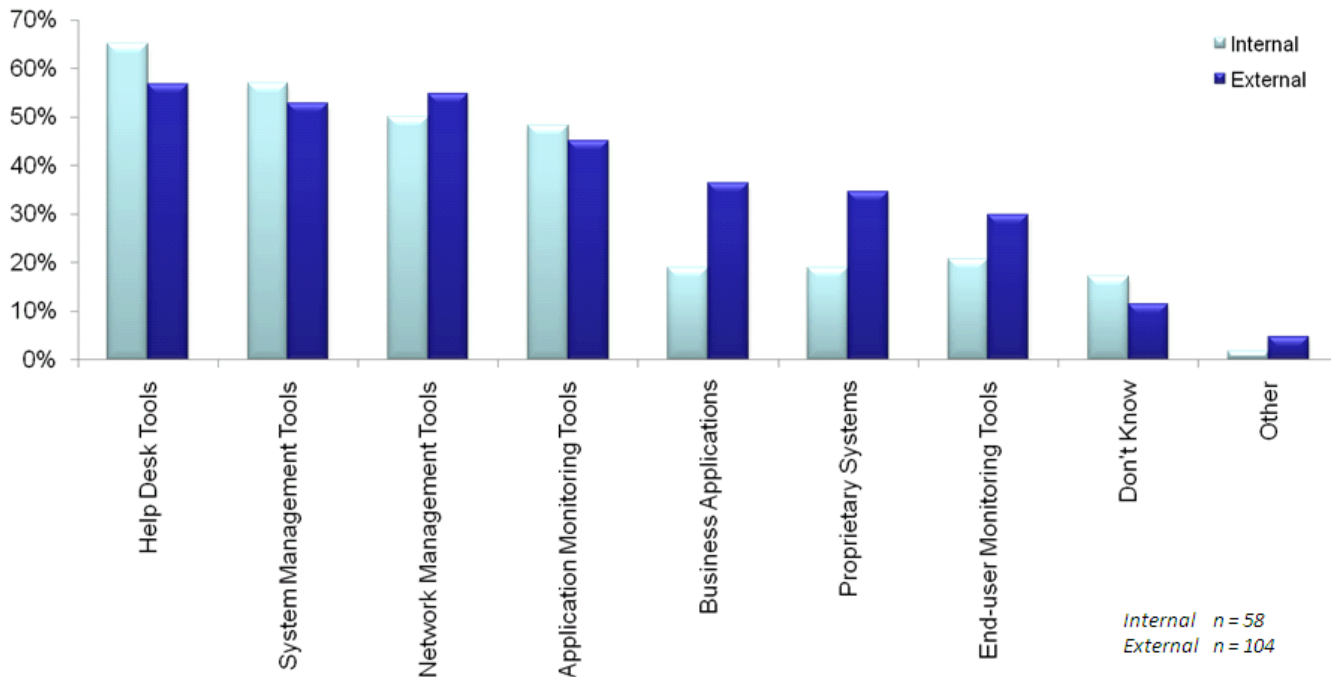
leverage very few data sources. On average, companies use around 3 data sources (external customers – Mean = 3.2 data sources, standard deviation = 2.0; internal customers – Mean = 3.0 data sources, standard deviation = 1.7) but with standard deviations around 2, a large portion of companies leverage only one data source.

Report Latency
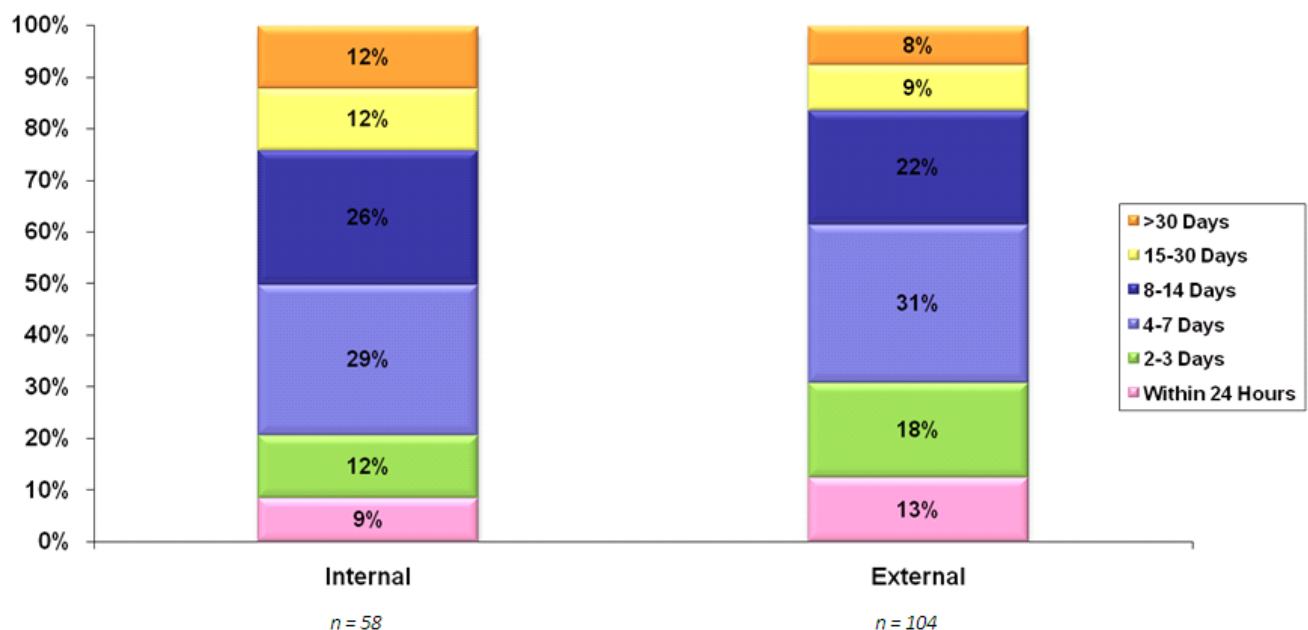
Looking at how effective companies are at reporting, it is important to note that the best practice for reporting is real time or on-demand. Respondents indicate that only 16% of service delivery agreements to internal customers and 15% of service delivery agreements to external ones can deliver reports within 24 hours of the period end. By contrast, 42% and 37% of companies require more than a week to assemble reports for their customers. With high report latency, companies miss the opportunity to fix service delivery problems before the obligations period has ended. When this latency is combined with the "number of dedicated personnel information" detailed earlier, it is clear that SLA reporting is a time intensive and expensive process.

Analysis and Conclusion

At the corporate level, use of service delivery agreement is quite common: most companies use SLAs somewhere in their organization. On the other hand, the focus on best practice frameworks and the pressures associated with outsourcing have driven companies to apply Service Delivery Management to a wider spectrum of business process obligations. With high growth for service delivery agreements expected for suppliers, internal constituents and customers, service delivery pressures will only increase.

Companies are ill equipped to manage this growth. Respondents perceive that companies are ineffective at managing important SLA drivers; an increasing number of personnel are associated with the management of service delivery; and there is a low level of SLA compliance. In addition, with manual processes being highly leveraged to manage service delivery, it is unlikely that the companies' business processes will enable companies to manage SLAs productively.

It is important to note that many companies are "just getting started" with Service Delivery Management as a business process. As the pressures continue to increase, company maturity will also improve. In addition, Oblicore anticipates that companies will need to adopt business processes and supporting technology to enable service delivery growth.

Perhaps the most insidious problem is the disconnection between the service supplier's and customer's perception. With report latency causing debates once the obligation period has ended, this difference in perception has created a culture of mistrust between service provider and service consumer. Improving this relationship will directly benefit both service provider (in the form of higher renewal rates and lower amount of negotiation time) and service consumer (in the form of fewer service interruptions and lower amount of negotiation time). In order to do so, companies need to create a collaborative relationship and improve the communications infrastructure between service provider and service consumer. This focus on improved communications will build trusted provider relationships will directly improve

the bottom line for both parties.

About Oblicore

Oblicore is the leading provider of Service Delivery Management software. Our flagship product, Oblicore Guarantee,™ automates, activates and accelerates the monitoring, reporting and management of all business technology service level agreements and service delivery for enterprises and service providers. An enabler of business management, Oblicore Guarantee allows organizations to understand the cost implications of service delivery agreements—in real time—for penalties, rewards and new opportunities. For the first time, enterprises and service providers have complete visibility and can proactively manage service delivery across the business and technology infrastructure from one solution. As a result, organizations:

- Reduce cost and increase productivity surrounding Service Delivery Management
- Improve customer acquisition, customer satisfaction, and customer retention
- Improve corporate governance and reduce business risk

Founded in 2000, Oblicore has worldwide headquarters in Cambridge, Massachusetts, with offices throughout North America, Europe and Asia Pacific. Our software solutions are leveraged by both service providers and global 1200 enterprises, such as ABN Amro, BT, Cable & Wireless, E.ON, France Telecom, Lufthansa Systems, Siemens Medical Solutions and T-Systems, to align their organizational performance with their business objectives. For more about Oblicore and Oblicore Guarantee, please visit our website at www.oblicore.com.
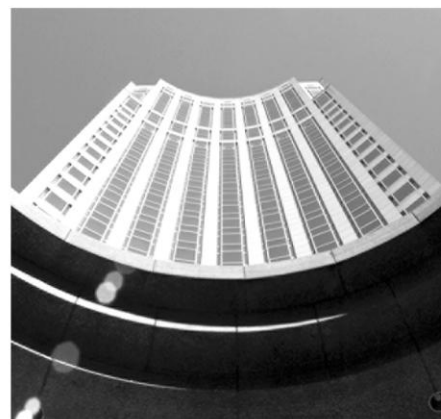
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2007 Service Level Management Survey:
Results, Trends and Analysis

Oblicore, Inc.

Oblicore™