SETTING EXPECTATIONS IN SAAS

THE IMPORTANCE OF THE SERVICE LEVEL AGREEMENT TO SAAS PROVIDERS AND CONSUMERS

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SETTING EXPECTATIONS IN SAAS:
THE IMPORTANCE OF THE SERVICE LEVEL AGREEMENT
TO SAAS PROVIDERS AND CONSUMERS

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SIIA Software as a Service Working Group

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UNDERSTANDING THE SLA

Purpose

The emergence of the Software as a Service (SaaS) model has necessitated new relationships between the service provider and the consumer with respect to service availability, service performance and response times. The Service Level Agreement (SLA) has evolved to become a useful tool which governs both service expectations and the consequences of failure to meet these agreed upon metrics.

In the past, software providers rarely used SLAs. This is relatively new ground for the software provider and their customers. After all, the typical scenario has been: sell the product, package the product, deliver the product (physically or electronically) and then it is up to the customer’s IT department to implement the application and manage it. With the new SaaS model, the SLA becomes a tool that offers protection for both the software provider and their customers.

For SaaS providers, the SLA is used to set realistic expectations for their customers. The SLA clearly defines the service level commitments established by the software provider and identifies their obligations to the customer and methods of reasonable compensation should these obligations not be met.

For the SaaS customer, the SLA introduces a new level of accountability from the software provider and a means to measure and monitor service performance. The SLA gives the customer a path to manage the software provider’s adherence to their committed service levels and a remedy for compensation.

The next sections discuss in greater detail the relationship between the software provider, their customer and the SLA along with the components of the SLA as defined in the industry. This includes what to look for in service levels from the customer perspective and what service level commitments should be included by the software providers. Highlighted as well are the best practices and performance standards as seen in the industry. In addition, we will touch on the topic of compliance (HIPAA, SOX, etc.) and the SLA.

Why is the SLA important to both the providers and their consumers?

The SLA provides several advantages realized by both service providers and consumers. The SLA is a tool that creates a type of strategic clarity. For the service provider, the SLA can be used to improve both customer relations and budget negotiations. It can even be used as a service differentiator by offering enhanced service levels to compete with other SaaS vendors. For the consumer, it is a type of insurance policy used to communicate requirements...
and attain compensation in the event that the service level drops from the agreed upon standard.

The SLA is a negotiated, legally binding agreement designed to convey a common understanding about services, priorities and responsibilities. The very nature of the SLA opens the communication path between the provider and the consumer. It can minimize conflicts by outlining a shared understanding of the requirements and priorities. It also presents an objective way to measure service effectiveness and guarantees that both parties are using the same criteria to evaluate service quality.

Negotiation can be an important part of the initial steps in the creation of the SLA. At the very least, there should be a basic understanding of what each party is willing to negotiate and to what extent. For example, customers must understand the level of service their organization needs to do business. This is quite often driven by the downstream customer requirements. The SaaS vendor should have a basic knowledge of what the infrastructure needs to be in order to support their requirements with respect to availability, latency and throughput, as well as other considerations including specifications for response time, time to repair and escalation guarantees.

In addition, service providers have to determine the level of service they can realistically provide. This can more accurately be attained by examining their service history. Should the service provider redesign their equipment for higher standards because of customer demands? That is certainly one alternative or it may make more sense for the service provider to factor into the overall price the potential costs of not meeting the customer standard.

If not clearly outlined, the SLA can be a point of contention between the service provider and their customer. Problem classifications should be unmistakably delineated into three categories: critical - those that cripple the service; urgent - those that affect performance or functionality of the service and low; those that are cosmetic in nature. The level of commitment should be defined with respect to setting out proposed response and repair times and working hours and non-working hours should be obvious.

Credits are a condition of the SLA where compensation is applied when there is a failure to meet the agreed-upon service levels. This compensation is typically a percentage applied toward the next period’s service fees rather than a penalty payment per se. Because of the legal nature of the SLA, it is important to carefully draft the limits to the remedy for credits for both parties to the agreement. The credit calculation must unambiguously cover the different types of failure and should clearly define compensation due for extended single outages or cumulative periods of downtime within a fixed period. Unless these credits have been unmistakably defined, there is a huge risk of misinterpretation for credits due. In addition, the SLA must outline the maximum credit that will be available for any period. By insuring clear expectations to compensation, the service provider can better manage customer relations in the event of service failures.

A provision should also be included to detail specific exemptions to the SLA. Such allowances should be made for delays caused by matters outside of the service provider’s control like “force majeure”, scheduled downtimes and
problems created by unauthorized modifications made by the customer, etc. It is imperative that the customer provide accurate and immediate notification of any problem. The SLA should explain what the penalty is if the customer has excessive or unrealistic demands. Some of these examples may be: attempting to rectify problems created by inexperienced customer personnel, failure of the customer to consult documentation supplied, or providing services outside normal working hours, etc. The SLA is just a tool that outlines the controls necessary to support both the service provider and the customer; however, each party has an equal responsibility in making the SLA a successful tool.

**COMPONENTS OF THE SLA**

The Service Level Agreement is generally comprised of the following sections:

**Introduction**
- Parties to the agreement
- Title and brief description
- Signatories
- Dates
- Scope of agreement, what is covered and what is excluded
- Responsibilities of both the service provider and the customer
- A description of the services covered

**Service Hours**
- Hours that service is normally available - Distinguish clearly between working hours and non-working hours
- Arrangements for requesting service extension
- Special hours
- Service calendar- holiday

**Availability**
- Availability targets- normally expressed as percentages - May be expressed as overall service and service components

**Reliability**
- Usually expressed as the number of service breaks or average times between failures

**Support**
- Support hours
- Arrangements for requesting support extensions
- Special dates

**Performance Standards - SLA Measurements**
- Transaction Performance--requirements for completing a given transaction
- Business Process Performance--requirements for completing a defined business workflow end-to-end
• System Availability Performance--these issues pertain to system "up-time" requirements, rate of production stopping events, etc.
• Accessibility--ability of users to connect to and make use of the business system services from the various channels and touch-points, including security (authentication, authorization) considerations
• Scalability--the ability of the system to grow along with the business
• Response and repair time commitments - a definition of the commitments for response and repair - See example in Figure 1.
• Classification of Events outlined by urgency and escalation path and process defined - See example in Figure 1.

**Figure 1**

<table>
<thead>
<tr>
<th>Priority</th>
<th>Description</th>
<th>Response Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Critical</td>
<td>Critical infrastructure components or customer server down or degraded; significantly operational impact. Refer to table below for critical infrastructure components.</td>
<td>Measured in terms of MTTN and MTTR. These can be found in SLA documentation.</td>
</tr>
<tr>
<td>Urgent</td>
<td>Non-Critical Network components or services down or degraded, non-critical restricted function and some operational impact.</td>
<td>During Normal Business Hours</td>
</tr>
<tr>
<td>Low</td>
<td>Network components or services unavailable but work-around possible with no operational impact, non-critical, deferred maintenance acceptable.</td>
<td>During Normal Business Hours</td>
</tr>
</tbody>
</table>

**Penalties**
• Covers the subject of maximum penalties/credits - will be discussed below
• Defined mechanism for reporting claims and provision to receive credits

**BEST PRACTICES**

Selecting a service provider is just half the battle - the other half is ensuring that they can deliver on their promise. The SLA document should be crafted in such a way to unmistakably enforce quality of service. It must establish base monitoring performance levels, credits for non-performance and clearly define how chronic and severe problems will be resolved.

Specifically the SLA should identify what is being measured, how it is being measured as well as the number of times an incident may occur before being considered as chronic (e.g., 2 consecutive months of less than 99.9% availability).

**Penalties:** As mentioned earlier, if the vendor does not meet its commitments, the client typically has recourse in the way of credits against future invoices. Please note that quite often it is not unusual for the SLA to mandate that the client must inform the vendor of non-compliance and request for credit. Non-compliance penalties should be specified within the
SLA. For example, per cent (e.g. 10%) reduction in the monthly payment for non-compliance in the event that specific SLAs are not met.

The credits that you may expect for non-compliance to an SLA may range from 0% up to 100%, with industry norms falling somewhere between 30-50% of monthly billing. While it is rare, it is worth noting that a number of providers will pay well above 100% in the event of major (long term) outages to key customers. The thing to keep in mind here is that penalties (credits) are fully negotiable with most vendors and become a matter of risk/reward to the services provider. In other words, as a service provider, I may be willing to increase the level of credits offered in return for an extended contract with a large monthly recurring revenue commitment.

Credit Policy: The SLA will define the credit policy where in the event the provider fails to meet the service level outlined in any given month, their sole obligation and exclusive remedy for failure is to meet the guarantee, and to credit their customer's account as specified with the agreement. The credit does not cover any additional damages and should state a maximum allowable compensation to manage the possibility of additional damages (like consequential damages or loss of goodwill as a result of service failure).

A common misconception is that SLAs guarantee levels of service. The fact is that SLAs are nothing more than an insurance policy. They do not guarantee that services will be available - rather they provide a mechanism to receive compensation in event something goes wrong.

**SLA HELP WITH AUDITS AND COMPLIANCE REQUIREMENTS**

With the growing number of audits and compliance requirements necessitated for public companies today, the SLA can provide some of the controls necessary to optimize audit results. For example, the Sarbanes-Oxley (SOX) Act of 2002 requires that public companies demonstrate and maintain effective corporate controls across several business functions. As a result, the SAS 70 Type II audit certification ensures that the service provider has demonstrated controls are in place and that acceptable adherence to those controls has been attained. This audit evaluates the systems and processes responsible for system operations, security, monitoring, problem management and physical security. These are many of the control mechanisms documented in the SLA.

To the healthcare industry, HIIPA compliance is mandated. The major goal of HIIPA is to enforce the Privacy Rule which is set up to assure that individuals’ health information is protected while readily allowing the flow of health information needed to promote high quality health care. Again, the SLA can provide the controls necessary to comply with the security of the data being managed as it pertains to the patient’s medical information and maintaining patient privacy.
CONCLUSIONS

With the increasing popularity and acceptance of service models, the SLA is rapidly becoming a productive way to legally solicit agreement from both the service provider and their customers, while outlining remedy for the customers when standards are not met. As described in detail earlier, benefits and challenges exist for both parties.

Certain elements are necessary to make the SLA an effective document. Communication and clear expectations are required from both the service provider and their customers to identify what is important and realistic with respect to standards and expectations. As with any service model, customer relationships are imperative to the success of the service provider. The SLA documents what is important to the customer while taking into consideration what is realistic in terms of service to be offered by the service provider. The SLA is thus a way to manage customer expectations while supporting the relationship through service assurances.
ADDENDUM: SAMPLE SERVICE LEVEL AGREEMENT

COMPANY Service Level Agreement (SLA) Addendum

100% Services Availability
This Service Level Agreement Services Availability ("SLA") is made and entered into as of this ____ day of __________, 200_ ("Effective Date") by and between Vendor, Inc., and ________________, a ________________corporation with its principal office located at ________________ ("Customer") and is made subject to the terms and conditions set forth in that certain Master Services Agreement and any related agreements, amendments and/or attachments (collectively, the "Agreement") executed between the parties and dated __________, 200_. The Parties hereby represent and warrant to each other that the individuals executing this SLA are duly authorized to execute and deliver this SLA on their behalf, and that each Party will comply with and be bound by its terms and conditions, as well as those contained in the Agreement. If the Parties have not executed a Vendor Master Service Agreement, then the terms and conditions of Vendor’s standard Master Service Agreement are hereby incorporated into this SLA by reference. Any terms defined in the Agreement shall have the same meaning in this SLA as in the Agreement. In the event that any provision of this SLA and any provision of the Agreement are inconsistent or conflicting, the inconsistent or conflicting provisions of this SLA shall be and constitute an amendment of the Agreement and shall control, but only to the extent that such provision is inconsistent with the Agreement.

SERVICE LEVEL GUARANTEE DEFINITION
Vendor shall use commercially reasonable efforts to maintain 100% Service Availability for Customer purchased “Covered Services”, as listed below. “Credits”. Based upon the actual duration of the interruption of Service, measured from the issuance of a trouble ticket with the Vendor Network Operations Center ("NOC") to the restoration of the impacted service. “Covered Services”: Consists of those services listed below.
All Colocation Space Services
All Connectivity Services
All Power Services
“Customer”: The entity that has purchased designated service(s) from Vendor.
“Service Availability”. Defined as services functioning as intended without any significant interruption.

REPORTING
Customer will be entitled to credit(s) as outlined below if the Customer: (1) provides written notice to Vendor of the circumstances giving rise to this credit request, (2) provides such written notice within five (5) days after the last day of the month within which Vendor failed to comply with the applicable SLA, and (3) identifies the relevant ticket(s) relating to the SLA for which the Customer seeks credit(s). For any billing month in which Vendor fails to meet
the above guarantee, Customer will receive one credit, based on the credit structure below.

**CREDIT POLICY**

If Vendor fails to meet the Service Level outlined above in any given month, Vendor will, as Vendor’s sole obligation and Customer’s sole and exclusive remedy for failure to meet the foregoing guarantee, credit Customer’s account according to the following schedule(s):

<table>
<thead>
<tr>
<th>Services Availability</th>
<th>Credit*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uptime of 100% or higher (Less than 5 minutes of downtime)</td>
<td>No Credit</td>
</tr>
<tr>
<td>Uptime of 99.9% - 99.99% (Between 5 and 43 minutes of downtime)</td>
<td>1%</td>
</tr>
<tr>
<td>Uptime of 99.0% - 99.9% (Between 43 and 432 minutes of downtime)</td>
<td>2%</td>
</tr>
<tr>
<td>Uptime of 98.0% - 98.9% (Between 432 and 864 minutes of downtime)</td>
<td>3%</td>
</tr>
<tr>
<td>Uptime of 97.0% - 97.9% (Between 864 and 1,296 minutes of downtime)</td>
<td>5%</td>
</tr>
<tr>
<td>Uptime of 95.0% - 96.9% (Between 1,296 and 2,160 minutes of downtime)</td>
<td>10%</td>
</tr>
<tr>
<td>Uptime of 90.0% - 95.0% (Between 2,160 and 4,320 minutes of downtime)</td>
<td>15%</td>
</tr>
<tr>
<td>Less than 90% (More than 4,320 minutes of downtime)</td>
<td>33%</td>
</tr>
</tbody>
</table>

*(Percentage of the total managed services monthly fees due to Vendor for that calendar month. The total credit from all Service Level Guarantees is not to exceed 33% of such fees due to Vendor for that calendar month as indicated below.)*

**CREDIT EXCEPTIONS**

A. If at any time the Customer is in default under the Agreement, then the Customer will not be entitled to any service credits."

B. Credit will not be issued under this Service Level Agreement for any covered outage that, as determined by Vendor in its reasonable judgment, results from:

Downtime due to Client-initiated changes whether implemented by Client or Vendor on behalf of Client;
Downtime caused as a result of the Client exceeding system capacity;
Downtime due to viruses;
Downtime due to Client required operating system software revisions and hardware/software configurations that are not Vendor tested and approved;
Downtime due to problems caused by Client-supplied Web site content or software (e.g. faulty CGIs or third party applications);
Downtime due to Client failure to adhere to Vendor’s change management process and procedures;
Downtime due to the acts or omissions of Client, its employees, agents, third party contractors or vendors, or anyone gaining access to Vendor’s network or to the Client’s Web site at the request of Client;
Downtime caused by Acts of God or natural disasters;
Any event or condition not wholly within the control of Vendor; and
Violations of Vendor’s Acceptable Use Policy;
The negligence or willful misconduct of Client or others authorized by Client to use the Services provided by Vendor;
Any failure of any component for which Vendor is not responsible, including but not limited to all Client-provided or Client-managed electrical power sources, networking equipment, computer hardware, computer software or web site content;
Any failure of Client-provided local access facilities;
Any scheduled or emergency maintenance up to an accumulated total of 24 hours per month;
Any failures that cannot be corrected because the Client is inaccessible.
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