

# **SERVICE LEVEL AGREEMENTS**

**The Technical Contract Within the Master Agreement**

# VENDOR ON-BOARDING PROCESS

- RFP (Request for Proposal)
- Due Diligence/Risk Assessment
- Vendor Selection
- **Contract Review**
  - **Service Level Agreement**
- Contract Negotiation
- Contract Execution
- Ongoing Vendor Administration/Oversight

# SERVICE LEVEL AGREEMENTS OVERVIEW

- Definition
- Purpose
- Key Requirements
- Exceptions
- Review

# WHAT IS A SERVICE LEVEL AGREEMENT?

A service level agreement (“SLA”) is a formal document describing the level of service a customer expects from a service provider.

# EXAMPLES

- “Vendor shall provide the services set forth in Addendum 1.”

WRONG!

- “Vendor shall provide the services set forth in the Service Level Agreement, attached hereto and incorporated herein as Addendum 1. (“Services”)”

CORRECT!

# PURPOSE OF AN SLA

An SLA is intended to specify performance expectations, responsibilities and metrics. It ensures all parties have the same understanding of and improves each parties ability to reach intended goals.

# KEY REQUIREMENTS

- Services and Objectives
- Performance Requirements and Responsibilities
- Performance Metrics and Measurement
- Accountability

# SERVICES AND OBJECTIVES

- Services: Clear statements setting forth the specific service(s) vendor agrees to provide.
- Objectives: The intended outcome or goal of the service(s). (*What do you want the service to achieve?*)



# EXAMPLE

This Amazon S3 Service Level Agreement (“SLA”) is a policy governing the use of Amazon Simple Storage Service (“Amazon S3”) under the terms of the Amazon Web Services Customer Agreement (the “AWS Agreement”) between Amazon Web Services, Inc. (“AWS”, “us” or “we”) and users of AWS’ services (“you”). This SLA applies separately to each account using Amazon S3. Unless otherwise provided herein, this SLA is subject to the terms of the AWS Agreement and capitalized terms will have the meaning specified in the AWS Agreement. We reserve the right to change the terms of this SLA in accordance with the AWS Agreement.

# PERFORMANCE AND DELIVERY REQUIREMENTS

- Responsibilities of:
  - all parties (including third party vendors)
  - service users
- Contract duration, locations and service times
- Additional fees and conditions
- Compliance:
  - federal and state laws and regulations
  - internal policies and procedures

# PERFORMANCE METRICS AND MEASUREMENTS

Metrics:

Should include both minimum and expected performance levels for the service as well as conditions under which the service is considered to be unavailable or limited.

# PERFORMANCE METRICS AND MEASUREMENTS

Measurements:

Should state how the metrics are going to be monitored, reported and evaluated.

# EXAMPLES

## **Availability Guarantee.**

Hardware Availability. Vendor guarantees that all Vendor-owned hardware operated and maintained on behalf of Customer or used to provide hosting services will be operational a minimum of 99.99% of the time in each calendar month for standard Data Center Service. In the event of a dedicated hardware failure, Vendor will repair or replace the faulty equipment within 2 hours of the diagnosed condition.

Availability %	Downtime per year	Downtime per month	Downtime per week
90% ("one nine")	36.5 days	72 hours	16.8 hours
95%	18.25 days	36 hours	8.4 hours
97%	10.96 days	21.6 hours	5.04 hours
98%	7.30 days	14.4 hours	3.36 hours
99% ("two nines")	3.65 days	7.20 hours	1.68 hours
99.50%	1.83 days	3.60 hours	50.4 minutes
99.80%	17.52 hours	86.23 minutes	20.16 minutes
99.9% ("three nines")	8.76 hours	43.8 minutes	10.1 minutes
99.95%	4.38 hours	21.56 minutes	5.04 minutes
99.99% ("four nines")	52.56 minutes	4.32 minutes	1.01 minutes
100.00%	26.28 minutes	2.16 minutes	30.24 seconds
99.999% ("five nines")	5.26 minutes	25.9 seconds	6.05 seconds
99.9999% ("six nines")	31.5 seconds	2.59 seconds	0.605 seconds
99.99999% ("seven nines")	3.15 seconds	0.259 seconds	0.0605 second

# EXAMPLES

Unscheduled Downtime per Calendar Month	Approximate Service Credit Equivalent	Service Credit Amount based on monthly charge for affected Service
0 minutes – 5 minutes	none	0%
5 minutes – 119 minutes	1 day	3%
120 minutes – 239 minutes	1 week	25%
240 minutes – 479 minutes	2 weeks	50%
480 minutes and greater	1 month	100%

Maximum service unavailability due to unscheduled downtime is 5 minutes per month. In any calendar month, if there is a period of Unavailability of 5 minutes or greater due to unscheduled downtime, the Customer will receive Service Credit based on the following schedule. Customer may obtain no more than one (1) month Service Credit for any given month and in no event shall the total amount credited to customer exceed the total fee paid by customer for the affected services

# TYPES OF METRICS

- Service Availability
- Defect Rates
- Technical Quality
- Security



# ACCOUNTABILITY

## Escalation Procedures

Define the steps to be taken when service levels do not meet the expected and agreed-upon standards.

May include:

- Issue and status reporting requirements
- Issue resolution within a specified time
- Intervention of senior management

# ACCOUNTABILITY

## Costs and Penalties

Estimate the costs and/or value of lost services to determine penalties and damages.

Penalties may include:

- a percentage of monthly recurring fees that scale up with failure severity.
  - May be capped and/or cumulative across all SLAs
- liquidated damages
- contract termination for recurring or very severe issues

# EXCLUSIONS

Exclusions are events or issues that are exempt from the overall SLA measurement.

Common exclusions include:

- scheduled and/or emergency maintenance (e.g. upgrading equipment, reboots, backups)
- failure of a third party outside service provider's direct control
- "force majeure" events
- failure to make "reasonable efforts"
- customer changes

# REVIEW

As businesses change, so do its service requirements. An SLA should be reviewed periodically, specifically if:

- The client's business needs have changed
- The technical environment has changed
- Workloads have changed
- Metrics, measurement tools and processes have improved

# SLA Checklist

Does the SLA cover?

- Service objectives
- Parties included
- People responsible for the agreement
- Coverage period
- Definition of terms
- Procedures for updating/changing/amending the agreement

# SLA Checklist

Does the agreement include the following service factors?

- Definition of the service(s)
- Service hours and dates
- Service exclusions

# SLA Checklist

Does the agreement detail coverage of customer and service provider factors?

- Procedures for adding or changing services
- Arrangements for service interruptions
- Escalation procedures
- Customer / service provider responsibilities

# SLA Checklist

Does the agreement cover communication channels?

- Contact points included for both customer and service provider
- Communication channels and methods



# SLA Checklist

Does the agreement state what and how performance monitoring will occur?

- Service targets (expected and minimum levels)
- How to monitor and report on performance
- Frequency of reporting
- Auditing of reports and monitoring
- Quality assurance measurements
- Complaints handling

# SLA Checklist

Does the agreement delineate service costs and penalties for substandard performance?

- Service cost and financial penalties