

Commentary

IT Services Contracts — SOW, Service Levels and Price

Sourcing agreements must be modified during the life of an agreement because of changing business requirements. Contracts need to group and connect the statement of work, service levels and price for the service recipient.

Gartner recommends that enterprises incorporate a statement of work (SOW), the associated and required service levels, and the price to be paid into all sourcing agreements. Combining the SOW, service levels and price in an addendum creates a better understanding of the sourcing deal and dramatically enhances the chances for a beneficial and sustainable relationship between the service recipient (SR) and service provider (SP).

Purpose

The SOW, service levels and pricing framework — as a triumvirate linked together — will describe the methodologies, processes and timelines for defining, developing and using these functions to assist in managing the relationship between the SR and SP.

Importance

When linked together, the SOW, service levels and pricing are key foundational tools that assist with managing the relationship. Without these three items linked together, the ability of relationships to properly function is significantly diminished. In developing a clear and concise SOW, the SR will focus on what it needs completed by the SP, leading the SP to more accurately price the deal.

Basing service levels on the requirements of a documented SOW will direct the SR to focus on the service levels designed around achieving business objectives. Organizing the SOW, service levels and price in a separate addendum to the sourcing contract will simplify the SR's process for adding, changing and deleting requirements. SRs that have a direct, one-to-one relationship between their SOW, service levels and price will be able to more effectively evaluate various SP offerings against these requirements.

Structure

The structure should include:

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A SOW, which is composed of:

- A general description of the services required, major categories of services and specific service elements (for a consulting arrangement where the service to be provided is the delivery of a system architecture plan, it would include the identification of the major headings of the anticipated document and the elements the enterprise wants addressed as part of each major category)
- A description of the service environment, which includes any restrictions in terms of things that must stay as they are or must change
- Roles and responsibilities of the SP and SR
- Projected resource requirements

Pricing

Service levels, which include:

- A statement of the key business measurements required by the SR
- A compilation of the most common service levels completed for each service level, such as:

Service-level category

Category time frame definition

Availability

Quality statement

Service-level objective

Escalation activity

Escalation management

SR responsibilities

SP responsibilities

Assumptions

Measurement formula

Measurement period

Data sources

Contractual exceptions

Penalty definition

Penalty formula

Reward definition

Reward formula

Example

For the contract vehicle in an outsourcing relationship to add value and provide assistance in managing the relationship, it must include a SOW, service levels and the associated price. The SOW must identify

what services will be delivered by the SP, how often, to what extent those services will be required, as well as when and where they are required. The service levels must be reconcilable to the SOW, and the price must reflect the SOW and the service levels. How the SR pays the SP for the services performed is not a consideration. Without a good SOW that includes clear roles and responsibilities and associated service-level agreements, an outsourcing deal is exposed to a greater risk of failure.

Bottom Line: Sourcing is a strategic decision. Enterprises as well as service providers must clearly and fully understand the outsourcing requirements and how much they will cost. They must also be flexible in changing the requirements as business needs dictate. Otherwise, competitors may gain an advantage and cause harm to the enterprise or SP.