

Using Metrics In Outsourcing- What Works/What Doesn't

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Topics

What Metrics (Service Levels) Are Needed in a Typical IT Contract.

Constructing the Metric

Assessing the Metric

Benchmarking

Improvements Achieved over 5 years

What are the Right Service Levels?

Should cover Operations as well as Development and provide a tie to business process impacts.

- Typical technical metrics are still needed (e.g. availability, response time).
- Development metrics are also important (e.g. defects, cost).
- Incorporate business process metrics.
 - Search for existing business metrics that can be incorporated in to a contract
 - Ensure vendors contribution to the metric can be quantified.

Consider carefully how you will assess the SLA's

- Annual, quarterly, monthly
- Aggregate or individual
- Performance credit structure

What are the Right Service Levels

- Type and number of Suppliers influence type of metrics needed
 - Service bureau contract- operational and/or business process
 - ADM agreement - operational, development and business process
 - Data Center operations – operational, business process
 - Internal: operational, development and business process

What are the Right Service Levels

- Multi-Suppliers
 - Consider joint metrics
 - Factor in cross supplier impacts (e.g. Supplier 1 system sends data to Supplier 2 system)
 - SLA's should account for impacts that the vendor can have on processes that are not considered in-scope to the contract(out-of-scope processes).
 - For Example: Contract covers Customer Care processes and applications but not Billing. Ensure impacts to Billing processes or systems are covered in your SLA's

Contract SLA Check List

General Questions

- ✓Type of contract- systems (ITO) and/or business operations (BPO)
- ✓Type of systems contract- ADM or Managed operations or both
- ✓At Risk dollars- monthly, annually
- ✓Earnback window or bonus apply? Timeframe for earnback window
- ✓Critical and Key SLAs apply?
- ✓Ability to change- add, delete – any limits
- ✓Continuous improvement- annual – any caps?
- ✓Termination conditions
- ✓Escalation procedures
- ✓Root cause analysis provided on ...specific requirements
- ✓Rules for establishing new SLAs
- ✓How to set and adjust targets
- ✓Reports- when provided and format

Contract SLA Check List

Specific SLA questions

- Types of SLAs needed- depends on contract type
- Severity level definitions
- Assessment period- monthly, annual, quarterly per SLA
- Definition, calculation and targets for each SLAs
- Allocation of performance credits across SLAs

Metrics Areas

Cost	Responsiveness
<ul style="list-style-type: none">➤ Cost Per Function Point for Enhancements➤ Cost per Function Point for Maintenance➤ Estimate Accuracy	<ul style="list-style-type: none">➤ Project Estimates within Commitment Timeframes➤ Enhancements within Commitment Timeframes➤ Ad hoc Requests within Commitment Timeframes➤ Production Application Defects Closed within Commitment Timeframes➤ Enhancement Cycle Time➤ Call backs completed with commitment timeframes

Metrics Areas

Quality	Customer Satisfaction
<ul style="list-style-type: none">➤ End-to-End User Response Time for Critical Systems➤ Critical Deliverables➤ Key Deliverables➤ Delivered Defect Density➤ Residual Defect Density➤ System Availability (IUMs)➤ Number of Production Application Defects➤ Business Process Metrics	Customer Satisfaction Survey

Developing the Metrics

Define your metric- *ensure the description and calculation are detailed enough and well understood by all.*

Determine how your metric will be assessed:

- By individual system – e.g. System X response time
- In aggregate (rolled-up) - Percent of all project estimates on-time
- How often – annual, quarterly, monthly

Determine how your metric target will be set:

- Use past historical data if you feel the data is good
- Use Industry Average data
- Baseline your metric for X months prior to setting a target.

Start with an initial target and then improve over time each year by X%.

Metric Detail

Service Level: Critical (C) / Key (K)	Category: Quality (Q), Timeliness (T), Cost (C),	Type of Metric	Description	Proposed Target	Performance Credits
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Critical SLA Allocation	Measurement Period	Calculation	Source	Report Frequency
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Techniques for Assessment

Performance Credit Structure:

- **Exact dollar amount:** This is a good method to use for an SLA that has no other components and can be evaluated as one entity (e.g. on-time delivery of enhancements).
- **Feathered credit amount:** This is a good method to use for an SLA that has no other components and where missing the target by various percentages causes various levels of business impact. (e.g. System Availability)

<u>Credit</u>	<u>Deviation from target</u>
8%	<=2%
17%	<=5%
25%	<=10%
50%	<=20
75%	<=30%
100%	>30%

Techniques for Assessment

Performance Credit Structure:

1 miss, 2 miss concept: This is a good method to use if you have an SLA that has many components and you do not want to assign specific dollar amounts to each component. (e.g. deliverables)

	<u>Credit</u>
One miss:	35%
Two misses:	65%
Three or more misses	100%

Avoid aggregation of metric results- leads to washout results. Measure as much as you can individually. You can still assess results in aggregate (e.g. percent of projects meeting cycle time targets)

Avoid averages for metric results – does not get at true results, use “percentage of projects meeting target” instead.

- **State what will be benchmarked in the contract**
 - Needs to be industry standard so data is available
 - Be specific about the scope of the benchmarking
 - Benchmark Repository
- **Other Items to be considered for the agreement**
 - When and how often benchmarking will be done
 - Vendor selection process
 - Who pays for the benchmarking
- **Most Importantly**
 - Be as specific as possible about the consequences of the results

Benchmarking

- **What to do just in case there is a gap between Supplier results and the industry average or performance**
 - Understand results and need for change
 - Develop and manage an action plan
 - Establish metrics or service level agreements with committed improvements
 - Monitor improvements
 - Benchmark again to insure continuous improvement

Do's and Don'ts

Do

- Know what data you can collect based on your processes and infrastructure.
- Create a scorecard and report data monthly at various levels.
- Improve your metrics annually. Negotiate new targets.
- Incorporate metrics into contracts with all suppliers.
- Be consistent- collect the same metrics from all suppliers.
- Start collecting some data as soon as possible.
- Review all detail data under each measure.
- Add and change metrics annually based on business needs.

Don't

- Aggregate too much data for reporting.
- Have supplier contracts without metrics or inconsistent metrics.
- Get hung up on function points.
- Take too long to start collecting data and showing results.
- Set targets with bad data.

Metric Improvements Achieved

System Availability results have improved 58% over 5 years.

- **Continual monitoring, root cause analysis and action plans to address issues, get well plans.**

Software quality has greatly improved. Delivered Defect Density has improved 97% and Residual Defect Density has improved 60% over 5 years.

- **Process improvements, benchmarking as well as monitoring results closely and identifying problems areas.**

Software development Cost has been reduced 78% over 4 years.

- **Process improvements, benchmarking and identifying problem areas.**