

# I.T. SERVICE AGREEMENTS

## THE GOOD, THE BAD, & THE UGLY

---

### SUMMARY:

IT service agreements aren't always what "they're cracked up to be". An agreement between two parties should be just that – an **agreement**, not a one-sided contract. It should be good for both parties, in other words, it should be Win-Win.

This whitepaper outlines how the odds are generally against a Win-Win result with IT service agreements. It then describes how a business owner can beat the odds if they address 5 key areas of the agreement.

## LOVE IT OR HATE IT?

Business owners often have a love/hate relationship with information technology (IT). When it works, they make money. When it doesn't work, they don't make money.

But when it stops working, it's usually at the most inopportune time possible: a big proposal is due but you can't work on it; or you're waiting for a crucial email but it's not working.

The reasons for having problems usually aren't important – it just needs to get working again NOW! And make sure it doesn't happen again!

To combat these disruptions, businesses often have monthly service agreements in place for IT. The idea is to reduce the possibility of an issue occurring and when one does happen, to get functional again as fast as possible.

However, IT service agreements aren't always what "they're cracked up to be". An agreement between two parties should be just that – an **agreement**, not a one-sided contract. It should be good for both parties, in other words, it should be Win-Win.

Unfortunately, the odds are only 1 in 4 that a contract is good. The rest are bad or just plain ugly. Table 1 summarizes the possible outcomes of an agreement.

Table 1 - Possible agreement outcomes

Business	Service Provider	
Win	Win	<b>The Good</b>
Win	Lose	} <b>The Bad</b>
Lose	Win	
Lose	Lose	<b>The Ugly</b>

## GOOD INTENTIONS

IT service agreements are offered in many different forms. Some include time each month to check on your systems, some include on-call help for you and your staff, some include offsite backup, some put you at the top of the list when you call, some monitor your systems. The list goes on and on.

Sometimes, business owners don't even know what's included and they're disappointed to learn that when they need something specific, it isn't included in the agreement.

Though there are many different types of service agreements, they range between two extreme cases: "snow plowing" and pay-as-you-go.

## SNOW PLOWING

With a snow-plowing contract, the benefit for the business owner is fixed expenses and the benefit for the snow removal company is recurring revenue. Sounds like a Win-Win; but rarely works out that way.

As the business owner, you pay a fixed fee for the season, regardless of the number of times it snows. So if it snows a lot, you win and the snow plow company loses. If it doesn't snow at all, you've paid for something you didn't need.

Service agreements structured like snow-plowing contracts can have the same effect: For months in which Murphy's Law occurred with IT systems, the business owner is the winner. When no support is required, the business owner wonders why he's paying a company he hasn't spoken with for the last 30 days.

If, at the end of the year, high-use months average out with low-use months, it's Win-Win. The disadvantage is that both parties are gambling that things work out. Another disadvantage is that "project work" and hardware often is excluded from these types of agreements. So if your server needs a new hard drive, the cost is not part of the agreement.

Some have a provision to reconcile hours at the end of the year. If there are surplus hours, the service provider refunds the unused portion and if there are excess hours, the business receive an invoice. Though this is a common practice, it begs the question of why a fixed monthly price model was used in the first place?

Despite good intentions, snow-plow-like agreements usually end up bad or even ugly.

## PAY-AS-YOU-GO

The opposite of a snow-plowing-style agreement is pay-as-you-go, or an understanding that the business owner will contact the service provider if something is needed.

Sounds like a win for the business owner: never pay any extra and get work done when you need it. However, service providers tend to place pay-as-you-go clients below “preferred” clients (i.e. clients with agreements in place) when it comes to prioritizing work.

This means that when you have an issue, there might not be anyone available to do help. If it's a big issue, that could be a big problem. No worries, if your regular service provider isn't available, you can simply call someone else, right? Now you're scrambling to find another provider that you can not only trust, but is also available RIGHT NOW. And even if you manage to find one, there may be a significant learning curve to understand your systems before they can actually fix anything.

Some service providers will bump a non-agreement client to the top of the list but they charge an “emergency service fee” to do it. You get the service when you need it but you end up paying “through the nose”.

So pay-as-you-go sounds really good until that pesky guy named “Murphy” (after which the Law is named) gets involved; then they end up bad or ugly.

---

*Murphy's Law:*

*Anything that can possibly go wrong usually does.*

*- Wikipedia*

---

## IT'S ALL ABOUT SERVICES

A good service agreement is beneficial to both parties. From the business owner's standpoint, it manages costs, helps to protect against adversity, and helps to get things back to normal when Murphy does strike. From the service provider's standpoint, it provides regular recurring revenue and helps them prioritize work.

When a business decides to protect their IT investment with a monthly service agreement, there are lots of questions to consider; but here the top five:

1. **When do we (both the business owner and the service provider) know about an issue?** Is it when the receptionist tries to login on Monday morning and can't access the server? Or is there a way to proactively detect potential issues before it affects staff productivity?
2. **How is information being safeguarded against accidental loss and against a catastrophic event such as fire or theft?** And if you're concerned about complying with privacy legislation, how is the safeguarded information protected?
3. **Is any labour included in the agreement and how is it charged?** If yes, how much? What happens if you don't need any labour in a given month? What happens if you need a lot?
4. **What are the expectations for receiving help when a problem does occur?** How do you reach the service provider: email, phone, text, logging into a support website, some other way? Is remote assistance acceptable or do you need someone to be at your office? How fast do you expect a response?
5. **What is the scope of the agreement?** Usually multiple companies are involved in making your IT work (Internet service provider, web host, email host, software vendors, VOIP providers, IT service provider, etc.), so who has responsibility for diagnosing the root cause of the problem and dealing with the corresponding resource?

---

*Win-Win:*

*A situation or strategy designed in such a way that all participants can profit from in it in one way or another.*

*- Wikipedia*

---

## 1. SYSTEM MONITORING

There are scenes in the movie Apollo 13 showing dozens of engineers in Mission Control all intently watching their screens for something to happen. When something appeared to be not quite right, they notified the person in charge and started planning how to deal with it.

Having a roomful of engineers constantly watching every aspect of your critical IT systems would be a great benefit, albeit impractical; but if you could have something like it, how much cost and hassle could be avoided when things go wrong?

That's where automated system monitoring comes in. It's software that gets installed on your critical systems and automatically watches what's going on. If something is not quite right, it notifies you, the service provider, or both of you, so that it can be dealt with.

System monitoring software can't know everything that can possibly happen; but it can watch for changes to key indicators. For example, it can detect that a hard drive is starting to fail. Now that you know, you can plan to replace it rather than reacting to it when it completely fails.

Automated system monitoring keeps watch 24x7 and should be included in any monthly service agreement.

## 2. INFORMATION SAFEGUARDING (BACKUP)

Safeguarding your information against loss is a very involved topic that can be the subject of an entire whitepaper; and it generally leads to a discussion about business continuity – again a very involved topic.

Since the subject we're talking about is monthly service agreements, let's limit the backup discussion by agreeing that critical information needs to be backed up and that a copy of it should be kept offsite so that it is protected against a fire or theft at the office. And let's also agree that the backup process should be automated, meaning that a person doesn't have to be involved to copy files, insert tapes, plugin hard drives, etc.

So what does an automated offsite backup have to do with a monthly service agreement? Most automated offsite backup software is bundled with storage space on a remote server and sold as a monthly service; so it meshes well with a monthly service agreement.

That leaves the question of the location of the remote server. In other words, where does your information go when it's backed up offsite? If it's not in the same country as your business, it is subject to the laws of that country; which may be different than the laws of your country; and you might find yourself in violation of local legislation. Therefore, it's always a good idea to learn the location of the backup server before entering into an agreement.

---

*Business Continuity:*

*The capability of the organization to continue delivery of products and services...following a disruptive incident.*

*- ISO 22301:2012*

---

Figure 1 - Legal jurisdictions



One more thing that a business owner needs to consider: What if either you or the IT service provider decide it's not working out and ends the relationship. Will you still have access to the backed up information or do you lose all of it?

You can always re-configure a new backup service but since backups usually include archived information, if you lose access to the original, you lose access to archived information. If this is acceptable, no problem; but if you need to retain the archived information, be sure you can access the backup if the relationship ends.

### 3. INCLUDED LABOUR

System monitoring and automated offsite backup are services that are provided every month, regardless of whether or not a business needs to interact with the service provider; so the snow-plowing and pay-as-you-go scenarios discussed earlier don't come into play.

However, it's generally in the business owner's best interest to have some time included in the agreement in order to be a priority when issues occur (and the included time is usually discounted).

The other nice thing about having some labour included in the agreement is that it gives you the freedom to contact the service provider for assistance on simple issues that you might otherwise force yourself to live with; because the time will be covered and you won't have to worry about receiving "piddly" invoices at the end of the month.

---

*Piddly: Trivial, inconsequential, slight, small.*

*- Merriam-Webster dictionary*

---

The challenge with all of this is to strike a balance between snow-plowing and pay-as-you go. To make a complex problem even more difficult, the balance depends on a number of factors such as:

- Number of computer users in your organization.
- User confidence and competency.
- Complexity of the infrastructure (servers, firewalls, switches, wireless, etc.).
- Complexity and diversity of software used in the business.
- Scope of the agreement (see below).

A great compromise that works for both the business owner and the service provider is a hybrid arrangement. A hybrid arrangement includes some time to cover the support requirements of the business but is small enough that if all of the time isn't used, the financial impact of paying for hours not used is minimal. Overages are billed by the service provider; but with a well-balanced hybrid arrangement, the number of overages and the amount are kept to a minimum.

### 4. SERVICE LEVEL

You've probably seen the term "service level agreement" (SLA) in relation to online services; but how does it relate to a monthly IT service agreement?

It outlines the mutually agreed-upon response times when a service request is made. It may also outline the procedures to be followed to initiate a service request and escalation measures. If after-hours support is required, it will also be stated as part of the SLA.

Keep in mind that nobody's perfect, including your service provider. They may strive to meet the mutually-agreed upon service level; but extenuating circumstances could interfere (Murphy's Law affects them too!). So most service providers include some fine print to give themselves some leeway – be sure to read and understand it before entering into the agreement.

Also keep in mind that higher SLA's (i.e. shorter response times) will translate to higher cost because the service provider needs to staff accordingly.

With all of that in mind, what is the right SLA for your business? The answer is dependent upon multiple factors ranging from the emotional (I want it fixed now!) to the practical (my computer is down but I'm still getting email on my phone so I can survive for a while).

In order to avoid paying for an unnecessarily high SLA, the best advice is to remove the "frustration factor" and objectively consider the possible implications of issues that could arise and plan accordingly. For example, it might be more cost effective to have a spare computer that staff can use if one of their computers goes down instead of paying for a high SLA every month.

## 5. WHO'S ON FIRST (?)

Abbott & Costello's classic comedy routine is a great example of what can happen with ambiguous and assumptive communication between two parties – definitely a situation to be avoided between a business owner and IT service provider.

The first indication of an issue is often exhibited as symptoms experienced by users. And because the problem is occurring on a computer, the natural response is to contact the IT service provider. However, what if after some troubleshooting, the service provider determines that the root cause lies with a 3<sup>rd</sup> party such as a software vendor or the Internet provider. In these situations, how do you want the IT service provider to proceed?

Should the service provider simply inform you of the findings so that you can contact the 3<sup>rd</sup> party directly? That would reduce the billable time from the service provider but would interfere with you running the business – and you may not have the technical knowledge required to explain the problem to the 3<sup>rd</sup> party.

Alternatively, you might prefer that the service provider contact the 3<sup>rd</sup> party on your behalf and work with them to resolve the issue. This is the most efficient way of handling it; but could also be the most costly because of the increase involvement of the IT service provider.

Again, there is no “right” answer; but most business owners opt for efficiency and prefer the second option. Whatever option you choose, be sure that both you and the service provider understand each other's role in these situations. Having this understanding up-front will avoid future frustration.

## CONCLUSION

IT service agreements come in many varieties, some good, some bad, and some ugly. Unfortunately, the odds seem to be against having a good one.

A business owner can beat the odds by asking questions to ensure the following:

1. Critical systems are automatically monitored and relevant people notified when a problem is detected.
2. Important information is safeguarded from accidental loss with automated offsite backup to a remote location that won't jeopardize the firm's privacy obligations.
3. The amount of time included in the agreement for support is big enough to cover usual monthly requirements but low enough that in months where no support is needed, the cost of unused time is affordable.
4. The service level agreement makes sense. That is, high enough to ensure issues are dealt with in a timely manner but low enough to be affordable.
5. All parties have a clear understanding of expectations for dealing with issues related to 3<sup>rd</sup> parties.

A good IT service agreement can help a business owner

- Improve employee productivity,
- Protect critical business systems,
- Protect important information,
- Manage IT costs, and
- Ensure that issues are resolved efficiently.

To determine if your existing IT service agreement is good, bad, or ugly, contact our consulting group for a no-cost evaluation:

Birmingham Consulting Inc.  
289-895-8948  
info@birmingham.ca