MATURITY

::: CASE STUDY :::

Project report on benchmarking at Fortum

Successful renegotiation of outsourcing prices

The Finnish energy company Fortum reviewed the price of its outsourcing agreement by undertaking a market price benchmark with Maturity, and made a significant return on its investment within the first month of the revised deal.

On 28 January 1999 the temperature in the Finnish town of Pokka dropped to a record value of minus 51.5°C. In Lapland, winter can last up to 200 days, so providing a supply of energy to the inhabitants is critical: energy is life. The Fortum power energy corporation is number one in the Finnish market and has extended its networks around the entire Baltic Sea and far into Russia. As well as the delivery of electricity and heat (where Fortum ranks fourth worldwide), more than 13,000 Fortum employees provide services related to the operation and maintenance of power stations.

The latest economic crisis did not, however, leave the company unaffected, and there was a clear requirement to control and consolidate expenditure. In IT, management focused its attention on an outsourcing agreement that addressed server and storage, service desk, desktop operation and networks. Mika Koskelo, head of IT infrastructure at Fortum, wanted to review whether its international supplier's prices were still in line with the market or whether there was potential for renegotiation. "That's why we launched a market price benchmark with Maturity 18 months before the end of the term", he explained. "This was made possible by a benchmarking clause in the original outsourcing agreement". The two parties had started the benchmarking exercise from very different viewpoints in terms of how performance was measured, and Maturity's independence was invaluable. In some cases, the approach of customer and supplier were far removed from each other. For example, Maturity had to reconcile three diverging costing processes for SQL databases. In the end, though, according to Koskelo, there was agreement over the numbers and "everything paid off fully". As he says, the project paid for itself within one month because the service provider had to adjust its prices – "we got a discount". The results of the market price analysis by Maturity were also used to demonstrate to the internal customer "that we're not as expensive as is always claimed".

Despite having made a significant cost saving, Fortum decided to go out to the market with an RFP the following year. Competition was "tough", says Koskelo, and the current provider dropped its prices again to retain the business. "We were helped by the fact that the economic situation at the end of 2009 was fairly fraught", concedes Koskelo. And he insisted on a benchmarking clause in the new contract as a factor critical to the success of the deal. The supplier complied with Koskelo's argument – "no benchmarking clause, no outsourcing deal". ■

Profile

Fortum

Company
Fortum, Espoo (Finland)
International energy supplier

Employees
13,300

Website
www.fortum.com

Benchmark targets
- Review of outsourcing prices
- Reduction of outsourcing prices

"No benchmarking clause, no outsourcing deal."

Mika Koskelo, head of IT infrastructure at Fortum

Maturity UK Ltd.
68 Lombard Street
London EC3V 9LJ

Phone: +44 (0) 20 7868 1901
Fax: +44 (0) 20 7868 1800
London@maturity.com

Our branch offices:
Amsterdam, Frankfurt, Hamburg, London, Munich, Milan, Vienna, Zurich

www.maturity.com