

Four Contract Models for the Supply of Uniforms and Protective Clothing through a Totalcare® Provider***Transaction Pricing Supply Model (8-year contract)***

The **Fire Department of the City of Hamburg, with some 5,500 members**, is Germany's second largest fire department. The apparel supply facility of the Hamburg Fire Department was given over to Lion at the beginning of 2005 and transformed into a modern shop. In addition to warehousing space and a sales room, the facility includes its own tailor shop for alterations.

For protective clothing, a "Station Budget" was set up at the level of the fire stations, which is administered by the station department chief. The station department chief uses the budget for purchases of replacement protective apparel (and only in the quantities actually needed = decentralized control with full cost control, instead of centralized control), either in the Lion's shop or via its shipping service. Lion provides a call-center with a toll free number for placing orders, as well as an online shop. In addition, there is a printed catalog with illustrations of all clothing items for every fire department employee. Each fire fighter also receives a personal budget, which can be configured task-specifically (e.g. rescue service as opposed to fire fighting or professional fire fighters as opposed to volunteer services). Every fire department employee can make purchases of any service apparel needed with this budget via the channels described above.

Accounts are settled monthly for only those items actually needed and purchased. The entire process of supplying inventory along with the guarantee of availability for delivery of the products is handled by Lion. The tasks of calculating replacement product requirements, purchasing of goods, quality control, stocking, shipping, as well as doing exchanges (size exchanges) are handled by Lion. **The costs for this are allocated to the product prices to raise the purchase price of the products creating a Transaction Price.** These are fixed rates for the potential price increases that can only occur every second year over the entire term of the contract negotiated, but which are significantly below the rate of inflation. The total costs for the apparel are therefore largely stable over the years and will allow for exact planning for budgeting estimates.

A disadvantage for the user in this model, however, is the loss of purchasing power, which arises because the product purchase price in the case of the in-house organization for the supply and maintenance of apparel was equal to the product selling price and, consequently, the purchasing power of budget funds was comparatively high. The costs of running the in-house operation (personnel, capital commitment, warehousing etc.) were taken into account separately. The bid of the privatization model provided for these costs to be added to the product prices. In this case the fire department is able to realize savings (personnel, capital commitment, warehousing etc.), but at the cost of reducing the purchasing power of the personnel.

Management Fee Plus Purchase Price Supply Model (7-year contract)

The **Wuppertal Fire Department has approximately 1,100 fire fighting personnel**. Here too, Lion Apparel set up a shop in which the products are made available for try-ons and for sale, either from a budget, or - for outlying fire departments - via cash payments as well. The Lion salesperson is also qualified tailor. The Wuppertal Fire Department pays the total amount budgeted and agreed to for the apparel in semi-annual payments/installments. Lion allocates the amounts to the personal budgets of the firefighters for the purchase of service apparel in accordance with the specifications provided by the fire department. Being a smaller professional department, its budget for protective apparel is one that is centrally-administered by the heads of the fire department.

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In the event the budgets are not fully used up at the end of the year, Lion, using its IT allowance control system, rolls them over to the following year by creating an accrual. In this way, the ***Wuppertal Fire Department avoids the so-called “end of year spending fever” and creates the potential for saving itself money.*** Purchases can then be made when they actually need to be made, instead of at the time when they become necessary for budgeting reasons.

The ***Wuppertal Fire Department decided on a payment model in which Lion Apparel receives a so-called “logistics payment” as a flat rate for the services provided*** (warehousing with the corresponding capital commitment, calculation of material requirements, purchasing, quality assurance, settlement of performance issues with suppliers, shipping, on-site shops, setting up online shops, call centers etc.) The prices of the products are therefore significantly lower than in Hamburg, where these markups are incorporated with the product. The transparency in this model is clearly higher, since price comparisons with similar products available on the market are possible and cannot be distorted with markups for services provided.

Cash Allowance Supply Model (8-year contract)

The police in Bavaria with about 27,000 male and female officers, as well as the judiciary with about 5,000 personnel, first called for bids for the apparel supply and maintenance system in 1997. After experiencing problems at the outset with the winner of the first round of bidding, SLQ (Service Logic Source), the Bavarian police has had a contract with Lion Apparel since 2001. Upon expiry of a 4 year contract, Lion subsequently received an 8 year contract (until 2013) after another bid on a Europe-wide call for tenders.

The Bavarian Police pays its officers the allowance for their apparel and wear and tear in accordance with § 3 No. 4 of the Income Tax Act (EStG) in the form of a tax exempt reimbursement for expenses. Bavarian Police regulations for uniforms of 08/12/1988 stipulate under No. 2.1 that a uniform allowance be granted for the care, repair and replacement of the uniforms. The police officer can therefore freely decide which portion of the allowance he or she will use towards the upkeep, cleaning and care of his or her uniform and which portion he or she will use for unrelated purposes.

Lion maintains 7 of its own retail stores in which the holders of identification can receive official uniforms just as he or she would via the online shops or through the call center. The first two delivery shipments per year/per officer are free of shipping costs; the same is true for returns. These services are a component in the product's price calculation.

There is, in addition to the winner of the bid, another supplier who is active throughout the Federal Republic and who also provides police apparel and equipment in retail stores. This means that the official supplier always has to compete for at least part of its product line, which has a continuing positive effect on the price-performance ratio (e.g. in the case of fixed prices under the agreement, a higher than required availability of the goods).

The apparel and equipment offered by the competitor usually does not meet specifications. Although an officer is required only to wear the officially-adopted uniform, this is something that is difficult to control in practice because of the cash allowance system. Since the money cannot be drawn through a single buying source as in one account system, purchasing through a supplier other than the official one cannot be prevented.

The system is problematic in that there is a possibility of the money being used for other purposes, the upshot of which would be that the apparel would be worn longer by choice, with the corresponding negative effect of image as perceived by the public. The tax-exempt

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payment of a portion of the money for apparel can make sense, however, in order to offset the expenses for uniform maintenance and care (laundry, shoe polish, cleaning etc.).

Fully Managed Service with Incentives Supply Model (12-year contract)

Supplying apparel for the 265,000 soldiers of the Armed Forces and all of its civilian personnel wearing service apparel and protective clothing is carried out on the basis of a PPP model by two private investors (Lion Apparel and Hellmann Worldwide Logistics), as well as the Federal Armed Forces as a minority shareholder in a Joint Venture Company LHBw. In terms of personnel resources, the Joint Venture has taken over 3,155 employees (primarily cobblers, tailors and technicians) from the Federal Army, and has managerial authority over this personnel within the scope of the contractual service parameters. Also made available were 171 clothing centers as well as 19 central warehouses with a total of 140,000 palette storage spaces.

Although the Federal Army, in the context of reducing the number army bases, closed some of the clothing centers that had been set up as service centers, the company introduced a number of mobile service points in specially-equipped trucks, with which the users can enjoy the convenience of on-the-spot local service in small and remote army bases. The guaranteed supply of products has reached 99.9%, with an average purchase price reduction of 16%, even with the application of contract procedures implemented on account of a particular corporate supply set-up. The Joint Venture manufactures none of the clothing itself but relies completely upon 3rd party contractors. After four years into the contract, the amount of verified savings that were also acknowledged by the Federal Finance Ministry already amounted to over 300 million Euros.

This contract model provides for a basic fixed payment for the first five years of the contract in order to give sufficient time for the provider and the Federal Army to stabilize and optimize processes. This period is followed by the remainder of the contract using a variable sum based on the services rendered or what is known as “transaction pricing”. The Joint Venture and the Federal Army develop a joint spending plan. The Federal Army owns the inventory purchased during the current year if it has not been issued to soldiers. In the event of extraordinary performance in savings, the company can participate in a portion of the savings. This serves as an enticement to exceed the contractual targets in savings.

The Joint Venture company keeps individual records for each recipient of apparel, and this details the items issued at any given time. The basis for issuing apparel is a given requirement prescribed by the customer, which differs according to the soldier’s deployment and occupational description. Soldiers serving on base or in an office receive less combat gear, soldiers deployed outside of Germany receive less in terms of dress uniforms.

The soldier can hand in the apparel for repair at no cost or, if necessary, exchange the item for a new one. The so-called “recycling” approach includes all services from supply requirements calculations to purchasing, quality assurance, warehousing, issuing, returns, cleaning/repair up to the elimination and sale of obsolete goods.

Four Contract Models for the Supply of Uniforms and Protective Clothing through a Totalcare® Provider**Conclusion:**

The number of variants in Totalcare® supply clearly show that if there is sufficient demand it is possible to achieve individual and client-specific solutions. Even if synergy effects are not achieved prior to procurements by an agreement of the agencies with the demand, then significant synergies can come about when there is the same Totalcare® provider as a result of a tender process and when the provider manages these agreements among its clients. An account solution appears to be superior to exchange solutions (with specified periods of use), since a control system geared to demand is in place instead of controls based on projections. This demand system is less risky for both the customer and the provider.

In order to avoid unnecessary expenditures, apparel and equipment requirements are to be defined in accordance to activity or deployment and the monthly apparel wear and tear compensations, ranked in terms of activity, can be transferred to the accounts as required. Trust accounts or advance payment of the annual budget to the supplier offer two advantages: first, for budgeting the monies are neither forfeited nor accounts are not covered by the budget, and second: the cost of capital for apparel and equipment inventory is at the public agency's cost which is significantly lower than a private company's.

The separation of costs between product and logistics has proven itself to be superior because they are more transparent and fair to all stakeholders. The models which have the logistics costs included in the product price have the following disadvantages:

- Product prices are perceived by internal clients as very high, the supplier as expensive and consequently the purchasing department as incompetent.
- If the budgets after privatization are not increased by the amount that resulted from the savings from giving up its own apparel supply system, and if the product prices increase due to the supplier's logistics markup, then the purchasing power of the individual clients diminishes.
- In the meantime, administrations demand a level of service that is significantly higher than that which existed at the time it was administering its own apparel supply system (e.g. free shipping, long business hours and service standby hours, 100% supply service level with a corresponding high level of bound up capital in inventory, assistance in drawing up technical documentation, purchasing, requirements calculations, development services, multiple apparel issue centers, lengthier payment periods, assumption of administrative tasks, online shop, printed catalogs, budget control software, free apparel samples for tryouts, etc.)
- If one does not detail and point out each and every one of these demanded services in a tender, then the transparency between costs and utility is lost, and the principle "as good as necessary" is often turned into "as good as possible". Satisfying internal clients often suffers from such a procedure because a part of their purchasing power is consumed by services, which, if they had had the choice, they would not have wanted to the same extent.