

CHANGES AFTER ORDER IS REPLACED

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1. Introduction.

Details of goods and services which have been agreed between supplier and purchaser may be modified during the validity of the contract. Such modification may affect the contractual obligations with third parties.

When such modification or cancellation or suspension of the contract arise, an increase or decrease of costs may arise. Moreover, the delivery date and other contractual obligations, e.g. warranty, may be changed. The resulting changes in cost may then only be applied to prices if suitable contractual agreements have been arranged and agreed upon beforehand.

2. Contents of contract between supplier and purchaser.

2.1 Details of goods and services

Any points which are not finalised at the time of signing of the contract have to be cleared within a time stipulated for the purpose. When these points are cleared within stipulated time and within the framework of the agreed details of goods and services, then the agreed prices, delivery dates and warranties do not change.

2.2 Details of documentation

Drawings, plan etc (e.g. erection drawings, foundations plans, pipe layouts) are submitted to the purchaser for appraisal and approval. The purchaser may change the documents once, if this is necessary, within the agreed time period without incurring additional costs. After such a change the supplier shall re-submit the documents and the purchaser shall give final approval within an agreed period.

3. Modification of contract by the purchaser.

When increases or decreases in costs are applied to prices the usual procedure is as follows:

3.1 Modification before commencement of engineering work

- The increases and decreases are assessed and the resulting figure is applied to the initial price.
- The purchaser to be informed on the effects of these changes upon delivery dates and other contractual obligations, e.g. warranties.

3.2 Modifications after commencement of engineering work

- If additional costs arise from further engineering work, production of modified or additional components, the price is then increased accordingly.
- If the costs are reduced by the fact that there is less engineering work only a part of the difference is credited. The balance is used to cover the additional overhead costs. In general 50 % has been shown by experience to be appropriate.
- If the modifications involve components supplied by sub-contracts then the purchaser is charged with the additional costs raised by the sub-contractor plus a sur-charge.
- The purchaser to be informed on the effect of any changes upon delivery dates and upon contractual obligations, e.g. warranties.

3.3 Modifications after procurement of material

- If additional costs arise they are charged in full.
- If, due to the changes components cannot be used, their scrap value only is credited. If, however, components can be used elsewhere within reasonable time, their actual value may be credited, less the costs of the additional overheads incurred.
- The purchaser to be informed on the effect of all changes upon delivery dates and upon other contractual obligations, e.g. warranties.

3.4 Modifications to documentation

These changes are charged at their actual cost.

4. Cancellation of contract by the purchaser.

The costs which have been incurred up to the time of cancellation are charged to the purchaser in full. It is possible that an agreed penalty clause will be involved.

4.1 Typical cancellation policy

A Purchaser's order is accepted in good faith, engineering commences, material is committed to the factory, and to suppliers, and manufacturing schedules are established.

A cancellation represents much more than engineering man hours and material and labour charges. Probably the most important single factor is the effect on the manufacturing schedule. It is seldom possible to accelerate the schedule of subsequent orders because materials required will not be available. A cancellation, therefore, represents a loss in productive capacity.

For this reason, it is recommended to establish the amount of cancellation charges, as a percentage of the order value, for various time periods. Figure 1 shows a typical chart of cancellation charges, as a percentage of order value against elapsed time.

In addition to the above schedule relating to pumps and stock motors, cancellation charges may be assessed on special, non-stock motors, seals, coupling and/or other non-stock equipment at the sub-suppliers, plus the applicable handling charges for the item when the order was entered. Additional cancellation charges should be also be assessed for special forgings, castings and/or pattern work.

5. Suspension of contract by the purchaser

If the contract is suspended for a certain period, the purchaser must bear the additional costs which arise, that means:

- any costs arising from the temporary interruption of work (e.g. preservation of components)
- any costs arising from the re-starting of work after an agreed time lapse
- any general cost increases which will become effective after re-start of work (e.g. increase of labour costs or overheads etc)
- the purchaser to be informed on the effect of all changes upon delivery dates and upon other contractual obligations e.g. warranties.