

Self-test 5.1

In preliminary discussions between operating departments and capital equipment manufacturer's representatives, the latter may offer to make a pre-proposal applications study as a service to the buying organisation. Sellers in some industries customarily make preliminary technical studies as part of their regular sales efforts. Both parties realise that such supplier participation is entirely voluntary and that the related expenses are those normally encountered in stimulating sales. Selling prices in these industries are set so that the revenue from successful efforts covers those situations where pre-proposal efforts do not result in eventual sales. In other industries, the cost of pre-proposal studies is not covered fully by the selling price.

The Procurement function, therefore, should always be cautious with respect to the acceptance of presale engineering work. The buyer naturally wants all the assistance available. However, in some cases, presale-engineering studies can entail excessive costs and place the buyer under obligation to the seller. The wise buyer avoids this kind of obligation. Before accepting a seller's offer for such a study, the buyer should find out how much money is involved and determine whether the offer is consistent with standard practice in the industry. If the costs exceed normal industry practice — yet the study is clearly worthwhile — the buying firm should consider contracting and paying for the study itself. By separating the procurement of the study from the procurement of the capital equipment, the buyer ensures against the incurrence of an unwise obligation.

Self-test 5.2

It is difficult to determine the true condition of used equipment and to estimate the type and length of service it will provide. For this reason, it may be wise to have one buyer specialise in used equipment. Moreover, it is virtually essential to enlist the cooperation of an experienced production, maintenance or technical specialist in appraising used equipment. It is always sound practice to check the reputation of a used equipment supplier and to shop around inspecting several equipment before making procurement. Finally, a prospective buyer should determine the age of the equipment. If

not available in the seller's records, the age of the equipment can be traced through the manufacturer by serial number identification. The combined knowledge of age and usage history is a key guide in predicting the future performance of used equipment.

The following questions summarise some of the concerns that a prospective buyer may have of used equipment:

1. Is a history of the equipment available?
2. Is there any indication of age, such as a serial number?
3. How well has the equipment been maintained?
4. Are spares readily available? Will they continue to be?
5. How does the price asked for used equipment compare with the cost of buying new?
6. Is the supplier well established? Has the supplier got a sound reputation?
7. What special contractual terms and conditions, if any, apply to the procurement?
8. Are any guarantees or warranties offered?
9. What trials, test or approval period will the supplier allow?
10. Will the supplier permit an inspection by an independent assessor?
11. What will be the cost, where appropriate, of dismantling, transporting and re-erecting/installing equipment?

In preparing a purchase order for used capital equipment, care must be taken to include all essential data. In addition to an adequate description of the equipment, an order should specify the accessories included, warranty provisions, services to be performed before shipment and financing as well as shipping terms.

Generally speaking, sellers do not provide service for used equipment after the procurement. All transportation, handling, installation and start-up costs as well as risk, are usually borne by the buying firm.