Warranty Management: Converting Challenges to Market Differentiators

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PRG
SUPPLY CHAIN MANAGEMENT REVIEW
Executive Summary

By their very nature, product warranties are a reflection of quality of a product: a company develops a product and then “guarantees” that the item will remain in good working order under specified circumstances for a period of time. When an issue arises—and provided the claim falls within the parameters outlined in the warranty—the buyer is entitled to repair or replacement from the manufacturer.

While the terms of warranties are typically clearly articulated, the art of reviewing, processing, and tracking warranty performance can be quite complex. Simply maintaining a complete record of warranty transactions, for example, requires attention to specific details that most firms can’t handle manually—although many attempt this approach, as our research demonstrates. More importantly, the chance to utilize this warranty information as a lever for product quality improvement, customer retention or new client marketing tools quickly wanes when the warranty process isn’t handled effectively. This equates to diminished branding, lost profits and lower revenue gains in an economy where every penny counts.

Increasingly, forward-looking companies are turning to the latest collaborative technology for help—often turning to supply chain and quality managers for answers. By using warranty management solutions that integrate with existing supply chain systems, companies can more efficiently receive claims, verify coverage, and initiate repair, replacement or corrective actions. Applicable for a wide range of companies, these solutions automate the entire gamut of warranty processes from defining warranty coverages, managing product registration, and tracking claims management, parts return and supplier recovery. Using advanced analytic tools, these systems can optimize warranty reserves—creating a positive impact on the bottom line.

When seen as a strategy for strengthening overall customer satisfaction, improving the customer user experience, and enabling product quality improvement, warranty programs can be differentiators that drive increased revenue and enhanced brand loyalty. In this brief we’ll explore manufacturers’ current use of warranty management solutions, the benefits and rewards of offering warranties, and the ways that companies can leverage technology to improve their warranty management systems to better serve their customers and drive new efficiencies.

New Research Conducted

To better understand the importance of product warranties in business today, Peerless Research Group (PRG) on behalf of Supply Chain Management Review and Logistics Management for Oracle Corporation and Tata Consultancy Services (TCS) surveyed 249 top supply chain and logistics executives in U.S.-based manufacturing and trade businesses. Study results show that warranties are considered business-critical incentives that can serve as a competitive differentiator and that effective management of these contracts may lead to additional revenues, improved customer relationships, and an overall advantage in the marketplace.

The research further reveals that warranty management processes can, in fact, be complex and as a consequence, businesses may be missing out on opportunities to create an untapped revenue stream as well as to carve out a unique position in the market.
Warranty Management is a Missed Opportunity

Three-fourths of the organizations surveyed (75 percent) have a warranty management solution in place.

Those operating a formal program claim their warranty tracking system helps identify and address product issues, allows for greater control over warranty practices on an organization-wide level, builds goodwill and enables better service to customers. Improved customer satisfaction is generally the end goal of a formal warranty management process.

Managing a complex warranty system, however, can present challenges to an organization. More than one-half of the companies surveyed report that more than one business unit offers product warranties to customers. Of these, most (77 percent) said that these different operations do have access to common customer information. The majority (74 percent) also claimed that warranty procedures are the same across all business units.

Those without a warranty management system in place mostly indicated that they just don’t see a present need or that they handle returned items on a case by case basis. While some respondents admitted they are unaware of an existing warranty program, a few remarked that they don’t know why they don’t have a viable warranty management strategy in place.

Further, more than one-half (57 percent) of those we interviewed were unable to determine the impact that returned merchandise has on their business in terms of cost, customer satisfaction, and manufacturing expenses. This indicates that the warranty processes within these organizations are not necessarily integrated across different business functions such as quality, cost management, customer management, etc. leading to a very myopic view of treating warranties as a pure claims management process.
Warranties Are Offered To Satisfy Customers

Services Offered Are Expanding Beyond the Usual

The primary motivation behind warranty offerings is largely customer-driven, as a critical business goal is for customers to have a positive user experience in their dealings. Clearly businesses also offer warranties because they are standard practice and they are required to remain competitive.

Many of the businesses we surveyed provide additional contract services. These often include product support, whether it’s 24x7 availability, more restrictive hours, or directed either on-site or online. Further offerings often include claim analysis and failure consulting, repair and operations (MRO) services, training, product replacement and maintenance for the life of the product.

Given that offering warranties is not a differentiator on its own, new measures are being taken to enhance warranty services and features. These include:

- Faster response on claims
- Improved communications; providing more information on pricing, claims, etc.
- Paying closer attention to what customers say; increased follow-up on issues; conducting customer surveys
- Better training of customer service staff
- Performing failure analysis and implementing product revisions based on analyses
- Lengthier warranties
- Offering a breadth of value-adds: expedited shipping, free return service, etc.
- New technology applications and upgrades: better tracking tools, on-line product tutorials, etc.
- Placing greater emphasis on process and change management
- Greater adherence to business strategies and methodologies: Six Sigma and the Pareto principle, for example.

"When a customer buys anything these days they want to know what the warranty is, what it covers and how long does it last.”
—Director Warranty Operations & Repairs/Manufacturing/Industrial Equipment/ $2.5B - $5B

"Our warranty policy assures the customer that we stand behind our product. In many cases our attention to a warranty submission builds a stronger customer relationship.”
—Manager, Warranty Operations/Industrial Equipment/<$50M

"A warranty in-place ensures customers that the company will stand by the products that we sell. Furthermore, this gives the customer a sense of assurance that the customer service extends beyond the point of purchase.”
—Corporate Management/Distribution, Industrial Equipment/<$50M

"Our WM processes are all geared towards making our customers very happy. We see that happy customers will sole source our products and recommend us to others.”
—Corporate Management/Communications Equipment/$250M - $500M
Extended service contracts after warranty expiration are occasionally offered (20 percent). On average, just over one out of three (37 percent) customers convert to an extended coverage plan. Additionally, the average retention rate for extended coverage plans for these companies is solid at 58 percent. Hence, while it is clear that organizations are focusing on ensuring improved customer service and experience, they are having difficulties in cross selling extended contracts. Improvements in this conversion rate would serve more customers and yield more revenue for the company.

Claims Procedures Are Handled Internally—But Not Necessarily by a Dedicated Department

Claims processing is largely a task handled in-house (85 percent). A few rely on a third-party (9 percent) or other resources (6 percent) such as distributors, to manage these return responsibilities.

Organizations who are handling warranty processes internally are split on how to best handle these duties. Just over one-half (55 percent) run a dedicated department specifically for settling service and warranty issues. As organizations graduate to having a dedicated warranty department, the maturity of the warranty business increases as they are able to better respond to issues and focus on warranty management processing.

A single enterprise-wide warranty solution appears to be the most common method for handling claims. Yet, about one out of every four respondents operates multiple systems for claim submissions that are filed across various business units or geographic regions.

"Customers like dealing with suppliers who handle their problems or complaints. It’s one less worry for the customer."

—Supply Chain Management/Automotive equipment & parts/<$50M

"Customers are assured that a unit sold will be backed. Even if a problem occurs, the consummated sale to a customer does not affect the overall revenue/service level."

—Supply Chain Management/Transportation equipment & parts/<$50M

"In-house management of warranties allows us to quickly identify problems with products and any customer satisfaction/dissatisfaction with a product. It keeps open dialog with manufacturers regarding quality control, etc..."

—Sourcing Management/Wholesale/$50M - $100M
Organizations we spoke with said they are best equipped to control warranty fulfillment costs through process management practices (69 percent). Analytical measures (40 percent) and other types of technology tracking systems (26 percent) are also commonly used.

Interestingly, one out of five in our survey said that at least twenty percent of all claims that are filed are processed manually. However, one out of three businesses maintains they perform a manual review on all claims.

This may be attributable to claims fraud or a lack of business rules to verify and validate the claim quality. In fact, one out of three companies contends that falsified claims, to some extent, contribute largely to excessive warranty costs and processing. Accordingly, conducting a review to rationalize and strengthen warranty business rules could help by improving automation and fraud detection during claims processing.

Performance measurement and continuous improvement of warranty processing is a cornerstone of warranty maturity. Despite that, only 54% of respondents used Key Performance Indicators (KPIs) to oversee warranty programs. Only 39% reported utilizing predictive analytics for managing their warranty performance. As products proliferate and competition intensifies, a manufacturer that is able to quickly identify emerging failure patterns can fix problems, contain warranty costs and enhance customer satisfaction.

When it comes to forecasting warranty reserves, the majority of respondents seem to go with a basic estimation model as opposed to more accurate forecasting based on failure information.

Analytical controls for warranty performance measurement

- **54%** KPIs (key performance indicators) to cover both transactional and enterprise decision making
- **39%** Predictive analytics to identify any problems in the early stages of the design and engineering processes
- **32%** Continuous forecasting of warranty reserves
- **8%** Other

Base: 199/Multiple answers allowed

“Our customer service goals are monitored for various criteria in order to attract our customers back to our facility.”

—Sourcing & Procurement Management/ Food & Beverage/ $250M - $500M
While many organizations have a process for benchmarking warranty processes, almost one in three do not. Benchmarking is another avenue available for organizations to compare performance within their industry. Performing both internal and external benchmarking can help improve warranty maturity.

### Organizations benchmarking warranty processes

- Yes–internal benchmarking only: 45%
- Yes–external benchmarking only: 6%
- Yes–both internal and external benchmarking: 19%
- No—we cannot benchmark our processes easily: 30%

**Base: 204**

### Warranty Claims Are Fulfilled Based on Customer Segmentation

Customer segmentation is common (62 percent segment customers). Most respondents categorized clients by importance, company size, level of business activity, or by behavior. Industry experts agree that it is important to manage warranty claims rapidly for high value customers, and to carefully watch for claims from abusers or slow payers and respond appropriately. To do this effectively, it is vital to have common warranty processes across lines of business and countries so that customers are treated consistently.

Two out of three companies administer warranties in fewer than five countries; thirteen percent offer warranty contracts to customers in five to ten countries; and about one in five (21 percent) deal with claims from clients in ten countries or more. As organizations spread their customer base across regions, the need for a consolidated view of warranty performance at the corporate level increases. Creating a common set of warranty processes and methods is critical for warranty fulfillment—especially if there are large customers shared across geographies.

### Segmentation of customers

- Highly segmented by customer value: 35%
- Corporate accounts: 33%
- Platinum accounts: 13%
- Low end frequent complainers/poor payers/those who abuse the system: 15%
- Other: 4%
- No segmentation as all customers are created equally: 38%

*Base: 232/Multiple answers allowed*

### Scope of warranties offered

- More than ten: 21%
- Five to ten: 14%
- Fewer than five: 65%
- Organizations having more than one business unit offering warranties: 55%

*Base: 244*
Warranties Provide Significant Benefits Beyond Customer Satisfaction

It’s undisputed that the warranty process is an important facet of many businesses. Warranties help improve the after sales/service experience—thus providing and promoting brand trust and product confidence, which leads to greater customer satisfaction and retention. A warranty policy can also serve as a directional guide for developing better quality and more reliable products, and is a way to keep on track with the competition.

Benefits of a Warranty Management System Extend from Customer Satisfaction to Mitigating Fraud

Warranty policies are seen as a way to strengthen the overall customer experience, improve the quality of products, and enable better tracking of sales, service and maintenance.

Level of importance in offering warranties

- Extremely important 52%
- Very important 37%
- Somewhat important 11%
- Not very/Not at all important 0%

Base: 245

Benefits of a warranty management solution

1. Improves the quality of our products 56%
2. Improves our overall customer service levels 53%
3. Improves our flow of information and ability to better track sales, service and maintenance 49%
4. Is a value-add that can be leveraged to distinguish us from our competitors 39%
5. Is a component in our overall marketing platform 37%
6. Allows us to extend the breadth of services we can offer customers 35%
7. Helps us to periodically monitor and mitigate fraudulent claims 19%

Base: 204/Multiple answers allowed

“A warranty communicates our confidence in our products. Our largest customer came from another company that decided to stop offering a warranty on their products.”

—Corporate Management/Metals/$100M - $250M

“It helps us benchmark our product and competitiveness in the industry, and to enhance safety and environmental procedures of the company and customers.”

—Logistics Management/Medical/$100M - $250M
Some businesses rely on historical data to continually improve the quality of their products. Benefits of analyzing warranty information include helping businesses:

- Stay engaged throughout all stages of the product lifecycle
- Conduct more thorough reviews of production factors and product design
- Work more collaboratively with suppliers and customers, and
- Follow lean manufacturing and production practices.

More specifically, respondents identified these initiatives as effective ways to leverage insights gleaned from warranty data:

- Analyze returns thoroughly
- Monitor product lifecycle closely
- Follow continuous improvement practices over engineering and manufacturing processes
- Improve testing and QC before going to market
- Track performance and problem areas as reported by users
- Improve sourcing and supplier management
- Invest in new technology and equipment

Building a warranty management solution that is able to connect all the processes and initiatives listed above would enable the management team to better understand and execute on product quality and design improvement.

**Most Believe They Satisfy Customers**

For most companies, the average claims processing cycle time is quick; the majority of companies are processing claims within 15 days.

<table>
<thead>
<tr>
<th>Typical cycle time for processing claims</th>
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<tbody>
<tr>
<td>Fewer than 5 days</td>
<td>38%</td>
</tr>
<tr>
<td>5-14 days</td>
<td>39%</td>
</tr>
<tr>
<td>15-30 days</td>
<td>16%</td>
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<tr>
<td>More than 30 days</td>
<td>7%</td>
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</tbody>
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Base: 244

“We have a desire to produce the highest quality product the first time and our warranty process keeps us aware of our progress with world class quality.”

—Supply Chain Management/ Automotive Parts/ $100M - $250M

“Analyzing returns for defects and passing along the information to manufacturing has improved product quality.”

—Operations Management/ Furniture/ <$50M

“We’re tracking and surveying vendor’s quality issues and constantly looking at new vendor technologies and opportunities for quality improvement.”

—Corporate Management/ Apparel/ $50M - $100M

“We’re conducting better inspection procedures using larger lot samples. Some are 100% inspected. We now have stricter raw material quality requirements.”

—Purchasing Management/ HVAC Equipment/ <$50M
Most warranty policies contain an RMA, or a return merchandise authorization agreement, whereby the customer, upon permission from the manufacturer, can replace, repair or return a defective item during the warranty period. Free shipping, instant replacements and loaners are also common provisions.

In roughly one-third of the responses (36 percent), customers are afforded online access to the details of their warranty entitlements. Just over one-half (54 percent) further indicated that the information is provided using a form that is pre-populated with their specific warranty information. Pre-population is possible when the business has a seamless linkage between entitlements and claims. This link not only ensures accurate claims management, but also improves customer service. Online access to warranty claims makes the whole process easier on the customer and saves time and labor for the company. Most companies (78 percent) also offer an outlet for appeals should the customer be dissatisfied with the decision on their warranty claim.

“All corrective return materials are reviewed to identify failure modes. Any failures are reviewed and root-caused. Corrective actions are driven into configuration and production management tools so that improvements are immediately implemented.”

—Corporate Management/ Aerospace & Defense/ $50M - $100M
Best-in-class warranty management costs less than 3%, but for more than half the costs are higher.

Warranty claims, for most (73 percent), represent less than 5% of overall revenues. Yet, for others (13 percent), warranty costs as a percentage of their organization’s revenues exceed five percent. Surprisingly, another one in six (14 percent) confirmed that they just don’t know the financial impact. While the average cost varies by industry, manufacturers should always look to reduce the warranty cost as a part of their continuous improvement initiatives.

Warranty costs as a percent of overall revenues

- Less than 3% 55%
- 3%-5% 18%
- 5%-8% 10%
- Higher than 8% 3%
- Don’t Know 14%

The more customer focused businesses are leveraging their product warranty offering as a strategic marketing platform and include these policies as part of their value proposition and sale. Warranties are further used to advertise and promote product upgrades and trade-in options, to engender consumer confidence, and demonstrate commitment to the customer.

Warranties Can Be Revenue Producers, But Few Have Accomplished This

Fewer than one in five companies we surveyed have generated revenue from their warranty practice. While policies may include an extension or negotiated provisions to increase a sale, warranties and service recovery initiatives can also serve as a chance to communicate with the customer or function as a value-add for generating repeat business opportunities.

Use warranty operations as a revenue stream

- Yes, leverage warranty operations to generate revenues 19%
- No, do not 81%

“Our customers concerns and needs feed our research and development team. As soon as we have a solution we use it to promote as part of our marketing strategy.”

—Plant Management/Industrial Equipment/<$50M

“It’s part of our overall marketing statement—to support those who invest in our products.”

—Inventory Management/Sporting Goods/<$50M

“Handling warranties and claims effectively gain, as well as preserve, customers’ confidence which leads to growth in our business.”

—Logistics Management/Industrial Equipment/$100M-$250M

“We learn from the customers’ expectations. Sometimes we develop a new product or improve our working instructions.”

—Plant Management/Industrial Equipment/<$50M
While it’s been mentioned that warranties are offered in response to the competition, they are, in fact, viewed as a “differentiator” by 86% of the respondents. A lengthier or better warranty such as a lifetime offering or ‘return for any reason’ policy can also provide businesses with an advantage over the competition.

Given the value of these programs due to differentiation and revenue generation possibilities, companies plan to invest in their warranty management application and processes over the next few years. The majority (57 percent) plan to initiate upgrades and replacement of current technology.

### Warranty policy as a differentiator

- A very strong differentiator: 19%
- A strong differentiator: 41%
- A moderate differentiator: 26%
- Not much of a differentiator: 11%
- Doesn’t differentiate at all: 3%

**Base: 245**

### Future investments in warranty operations

- Updating technology slightly: 32%
- Updating/replacing technology: 25%
- Maintenance required only: 21%
- Not sure at this time: 16%
- Other: 4%
- Nothing: 12%

**Base: 244/Multiple responses allowed**

“This separates us from our competitors. They do not offer a long warranty period as we do.”

—Operations Management/Office Equipment/<$50M

“We feel our warranty system is a selling advantage for us.”

—Supply Chain Management/Sporting goods/<$50M - $100M
**Linkage to Service Parts under Warranty**

One area for improvement is linking faulty repair parts returned through the service channel back to the warranty claim. One of every four respondents (25 percent) to our survey reported issues in this area. When this happens, it also becomes challenging to recover parts costs from suppliers. To avoid these issues, companies need the ability to link faulty service parts and the subsequent failure analysis with claims information. This linkage not only identifies the parts supplier, but also helps to improve product reliability. Currently, many of these types of claims are handled manually, making tracking to suppliers a challenge. There is clearly a significant benefit to be derived from linking processes and information from claims, parts return and supplier recovery so that there is a seamless flow of information to improve reporting capability.

**How claims from suppliers are handled**

- Yes–manual process exists 57%
- Yes–but we have no defined process 14%
- Yes–automated process exists 13%
- No–we do not pass claims on to suppliers 16%

Base: 231
Conclusions—Investments in Warranty Management Technology Are Supported By a Strong Business Case

- There is strong acknowledgement that warranty management technology creates the ability to effectively improve product quality and customer satisfaction. However, many organizations are still not able to link information from warranty entitlements, claims, parts return and supplier recovery. Sixteen percent don’t pass claims onto suppliers, and 71% have a manual process or no defined process for doing so. This capability is critical to positioning warranty as a source of revenue generation and can improve supplier cost recovery.

- Manufacturers are not realizing the full potential of strengthening returns business rules to better automate their claims processing as well as fraud detection.

- The majority of organizations do not have well defined metrics to measure warranty performance. Advanced analytical tools are readily available today to predict product failures and optimize warranty reserves. Technology applications can be applied to help businesses view the warranty value chain as a whole, drive better efficiencies and create new revenue sources.

- Leading firms are leveraging applications technology to close-loop the warranty claims process into product engineering, design, quality and improved user instructions to properly set expectations. Excessive ‘no-trouble-found’ (NTF) rates leave manufacturers bewildered.

- Finally, a huge opportunity exists for companies to differentiate themselves by seeing and understanding the service they offer from a customer and cost perspective, and delivering differentiated, fast, satisfying warranty management service. Eighty-six percent of respondents believe warranty is differentiating. Only 19% know what revenue it generates. By closing this gap, companies can see and serve customers more effectively.

Methodology

This research was conducted by Peerless Research Group on behalf of Supply Chain Management Review and Logistics Management magazines for Oracle and TCS, leading providers of supply chain software solutions and consulting services. This study was executed in September/October 2013, and was administered over the Internet among subscribers to Supply Chain Management Review and Logistics Management.

All respondents were pre-qualified for being involved in decisions as they relate to service, warranty or reverse supply chain procedures for their company.

Findings are based on information collected from 249 top corporate and supply chain executives located in the US and Canada.

Overall, respondents are predominantly upper level executive management (34 percent), supply chain management (20 percent), logistics management (16 percent), sourcing and procurement management (13 percent), and warranty operations or reverse supply chain management (6 percent).

Companies of all sizes across a range of manufacturing industries including computers and electronics, automotive and transportation equipment and parts, industrial equipment, and medical devices, as well as those employed in wholesale and retail trade are well-represented in the study.
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About Oracle:
Oracle engineers hardware and software to work together in the cloud and in your data center. Oracle offers complete warranty management capabilities, including warranty administration, claims management, warranty settlements, supplier recovery, and business intelligence. Oracle’s Siebel Warranty Management helps businesses solve the problems of manual processing with high processing costs and lengthy waiting times, fraudulent and/or duplicate claims, low recovery costs from suppliers, and visibility into defects for product quality improvements. For more information about Oracle Warranty Management, visit www.oracle.com/Siebel.

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