



# **A Defect-Free Warranty Strategy for Manufacturing**

## **Protectional role of warranties**

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## A Defect-Free Warranty Strategy for Manufacturing

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A recent study indicates that manufacturers have a long way to go in using warranty best practices, data and analytics to bring down their after sales costs, improve customer satisfaction and loop back intelligence to their production process to improve quality. Most companies are aware of the consequences of poor warranty management. Few know exactly where they stand in relation to industry benchmarks and best practices. The problem is compounded by a number of factors that include shrinking product lifecycles, growing product complexity, increased life of products, an intricate value chain that introduces multiple intermediaries and potentially damaging social media interaction between customers. Poor strategy, lack of rugged process and outdated technology are eroding the promotional and protectional role of warranties.

The report, released by IDC in May 2011, suggests that manufacturers variously spend 0.5% to 7% of their product revenue on warranty claims. This amounts to a staggering \$23 billion in the US alone. In the event of poor warranty management, the additional impact on reputation and brand can be irreparable. Automobile and electronic consumer goods manufacturers have experienced this in the recent past. They have had to recall entire batches of vehicles, hair dryers, laptops etc in a bid to avoid making damaging headlines from warranty failures. It is now widely recognized that the cost of quality is not in improving the product, but in not improving the product.

Effective warranty management can positively impact product quality, customer satisfaction, product margins and help rationalize warranty accruals. In addition to the business benefits, a successful warranty strategy is helping leaders lower pressure across the value chain of design, supply, assembly, packaging, distribution and even how customers use their products.

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## Warranty is a management priority

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There is pressure on IT and warranty departments to have tools and systems in place that can squeeze warranty cost and shrink warranty accruals so that savings can be put back in creating better products.

A 2010 study from the Aberdeen Group confirms this. The study showed that 45% of the respondents thought that the importance of effective warranty management to the overall performance of the company was "extremely important". Another 38% thought it was "Very important". The numbers indicate that warranty management is likely to be under the lens of senior management to drive business and competitive advantage instead of being viewed as a mandatory and unavoidable process.

## The hurdles to great warranty management

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Historically, product companies have set aside on average 4 to 6% of revenue as warranty accruals. Can a robust warranty system reduce this to 2%? We believe a rules-based system that identifies and captures the root cause of warranty failures has the potential to shrink accruals, redirecting budgets to areas where business needs them most.

Over the last two decades manufacturers have failed to invest in or upgrade their warranty management systems. While the rest of their business has become complex with an increasing number of vendors, dispersed manufacturing plants, new distribution channels and business models, warranty management has taken a back seat. Manufacturers continue to mount increasing pressure on their antiquated systems that are unable to provide adequate visibility to points in their value chain where warranty issues are emerging. When they can't find the fault, they can't apply the fix. Manufacturers have developed complex relationships between

vendors across continents for the supply of individual components. Systems to trace back faults and flaws to vendors have been lagging. The effect of this is unprecedented stress on the service chain through delayed decision-making, expensive recalls and low vendor recovery.

A joint Wipro and AMR study shows that more than 40% of the Consumer Electronics and Hi-tech industry manufacturers take an average of 15 to 20 days to receive and administer a warranty claim. In addition, taking the total claims and feeding the product quality information back to manufacturing and design can take anywhere from 60 days to 180 days. The delay can be largely attributed to the complex systems manufacturing in the 20th Century has had to adopt.

### **As a consequence, the challenges to efficient and effective warranty management include:**

- Manual processing, antiquated systems with high processing costs and lengthy waiting times – latency in decision making
- Inflexible processes
- Inability to scale warranty processes to keep pace with growth
- Complex product recover process
- Warranty management not integrated across value chain -- poor collaboration between retailers, customers, distributors and suppliers
- Not easy for complete value chain to understand defects in products creating inability to effectively manage warranty
- Failure to create and return accurate and quick intelligence from warranty issues to design, supply, manufacturing and packaging, leading to inadequate business value from warranties
- Fraudulent and/or duplicate claims
- Low recovery from suppliers - supplier recovery process not traceable to original warranty claims

Manufacturers are aware that they can harvest the benefits of improved warranty management. The tough task before them is to be able to manage the data being generated from customer calls, from traditional warranty processes and systems, from return of products (product recall), from products being opened to settle warranty claims (labor), replacement of parts (cost of spares) and returning the product to the customer. The data is overwhelming. Across manufacturing, top-level management has begun to prioritize functions that can help do business better by leveraging data and analytics. In manufacturing, analytics can be invaluable to predicting future cost of warranties as well as spotting and reducing suspicious claims.

Given the complex nature of the task, manufacturers need to partner specialist technology vendors who can deliver solutions tailored for their warranty management goals.

## Warranty: a new strategic differentiator

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Proficient warranty management can lead to improved product quality, track partner performance, as well as improved margins. Managements with foresight also know that effective warranty management can become a differentiator. The quest for manufacturers of the 21st Century is to go beyond using warranty management as a system to address product quality failures and customer complaints. Warranty management can become an effective tool to manage and enhance:

**Brand perception:** Today's warranty management systems need to be open and transparent, aimed at improving customer trust and confidence. Warranty insights should be leveraged to drive quality, customer experience and service improvement actions.

**Financial management:** Leverage predictive analytics to forecast warranty expenses and lower warranty reserves.

**Real time decision-making:** Integrating various manufacturing functions from design to vendors, suppliers, dealers and service outlet to enable better flow of information is a critical aspect of warranty management.

### The question every warranty management executive should ask is

How quickly can I feed information back to the quality functions so that production is stopped and product issues fixed before more faulty shipments occur?

**Product improvement & cost reduction:** Continuous improvements and cost reductions can be enabled by integrating design, suppliers, shop floor, call centers, dealers and service outlets using technology.

**Transparency and visibility:** Data availability - like known issues with product quality, changes in product quality, compatibility, etc across stakeholders, leading to transparency in decisions and visibility in operations can help manage customer issues more effectively.

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## Improve business by improving warranty management

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Wipro's expertise in warranty management through large implementation experience has seen customers gain from significant reductions in warranty claims and processing expenses. Some of these benefits are dependent on the manufacturer's maturity in the warranty process, but it is not unusual for customers to experience up to 20% reductions. Further reductions have been enabled through fraudulent claim reductions and enhanced supplier recovery.

Wipro's customers have achieved higher levels of customer service through integrated management of warranty related services. Not surprisingly, the biggest wins have been through improved product quality using closed loop quality management. The result has been increased revenues and market share as well as enhanced customer loyalty and brand reputation.

The growing trend to outsource end-to-end warranty management to experts is being driven by the need to future proof the function, and continue to make business gains. It's one way to guarantee that your warranty goals are not compromised.



## About Wipro Council for Industry Research

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The Wipro Council for Industry Research, comprised of domain and technology experts from the organization, aims to address the needs of customers by specifically looking at innovative strategies that will help them gain competitive advantage in the market. The Council, in collaboration with leading academic institutions and industry bodies, studies market trends to equip organizations with insights that facilitate their IT and business strategies. For more information please visit [www.wipro.com/insights](http://www.wipro.com/insights)

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