

# WARRANTY AS A COMPETITIVE DIFFERENTIATOR IN MANUFACTURING



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## Introduction

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Manufacturers spend significant amounts of money on research and development (R&D) to create new products. Unfortunately, globalization and technology have made imitation of products easier. Seeing competitors imitating their new products is a nightmare for manufacturers. Today, manufacturers cannot be assured of profits by only creating a compelling product. In fact, it is only an essential first step. Increased revenues and higher margins would be possible only when manufacturers will be able to differentiate their offerings in the market.

While marketing is an essential arrow in the quiver towards this, another important arrow that manufacturers can leverage is warranty. Post-sale assurances in the form of warranties are a crucial part of enhancing customer experience, adding brand value and differentiation.

This paper looks at the various aspects that need to be considered while developing a comprehensive, well thought-out warranty strategy.

## Warranty Opportunities

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Best-in-class manufacturers, who focus on warranty, are able to leverage the four major opportunities within warranty, as shown in Figure I.



Figure I. Warranty Opportunity Areas

- Streamline warranty processes to set consistent policies and enforcement
- Reduce warranty fraud through upfront checks and consistent inspection of failed parts
- Supplier recovery allows for recovering a portion of the warranty claims paid out, to be recovered from component suppliers. This provides an incentive for suppliers to improve quality by using the warranty feedback and helps increase quality across the supply chain

In addition to the cost aspects of warranty mentioned above, there is also the revenue opportunity through the sale of service contracts beyond the standard product warranties. Service contracts offer higher

margin for manufacturers. Many manufacturers have a huge installed base that is many times bigger than new product sales and are candidates for selling service contracts. Monetizing even a small percentage of the installed base can yield huge gains to the bottom line for manufacturers.

An example is the auto industry where all the major manufacturers sell and administer vehicle service contracts. The vehicle service contracts could be for extension of warranty duration or additional services like car rental, towing, tire repair, emission control, oil and filter changes, etc. These service contracts, in addition to providing additional revenues, also help in maintaining a good relationship with customers.

## Warranty Strategy Framework

Companies that treat warranty as mere claims administration will not be able to reap the benefits shown above consistently. Best-in-class manufacturers have a comprehensive warranty strategy that helps them accrue these benefits. A good warranty strategy depends on the product and the industry and needs to be in alignment with the overall corporate goals of a company. It also depends on what the competitors are doing and needs to adjust according to the feedback from the customer. One way to classify the warranty strategy is:

- Defensive – Focus on keeping costs low
- Offensive – Focus on gaining market share and increasing brand perception

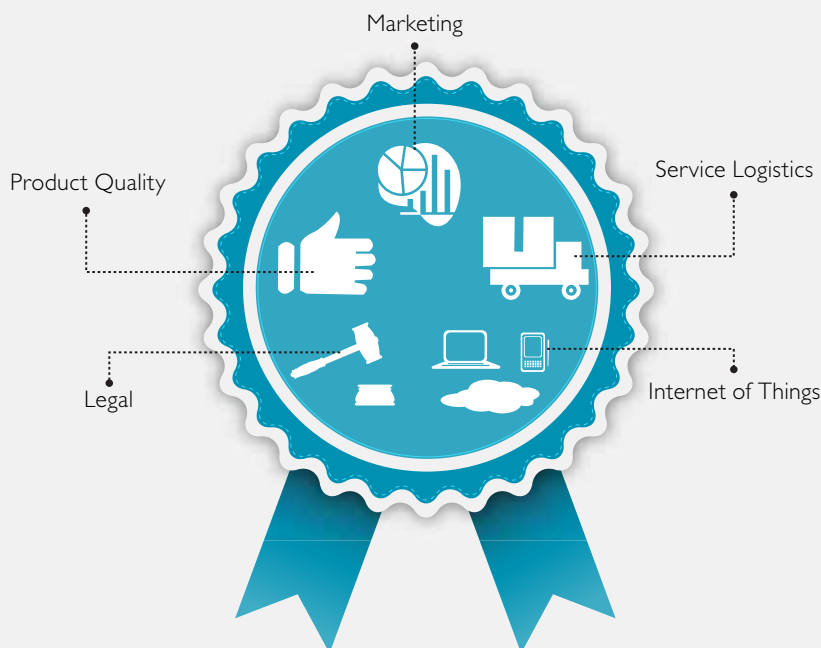
Two examples of offensive strategies:

A leading software company, when it launched a new product in 2005,

had a 90-day warranty. Within a few months the perception of the product's reliability went down and there were a lot of customer complaints due to a design flaw. In 2007, the company changed their strategy and extended the warranty to 3 years, and experienced a huge change in its earnings due to the warranty issues. However, changing strategy to increase brand perception paid off and the product eventually became very successful.

Another example is an automotive company that effectively used warranty to change brand perception. They offered a much longer warranty than its competitors that provided the assurance to the customer of its product quality. Its sales really took off since it made this bold move in 1998.

The following areas need to be looked at while developing a good warranty strategy:



# Marketing

Warranty provides customers with an implicit message of a product's reliability. Avoiding the risk of failures is a key criterion for customers when purchasing a product. Thus, marketing needs to take warranty into account. This link between warranty and marketing needs to be established when products are being developed, and the strategies developed together need to be in proper alignment.

Here are two examples of potential misalignment for illustration:

- The marketing strategy is meant to compete aggressively with other players in the market in terms of reliability. However, the warranty offered does not match the warranty offered by

competitors. This is likely going to lead to ineffective marketing and may result in poor sales.

- The marketing strategy is meant to compete on price and will target the price conscious customer segment. However, the warranty offered is much higher, especially in light of a product's lower reliability. In this case, though initial sales will be higher, the higher warranty costs will reduce profits below target and would even cause losses. In the longer term, warranty issues will also lead to lower sales.

# Product Quality

Warranty data is an excellent input to improve product quality through the following:



Component Supplier issues – Warranty claims that are higher for certain suppliers are a clear indication of supplier quality issues and help in isolation of warranty failures to components from specific suppliers, to reduce future problems.



Production issues – Warranty claims that are higher for products manufactured at certain plants, help isolate and rectify production issues that are specific to a plant and its production processes.



Customer usage – Products that fail at a higher rate in the field do so due to unanticipated customer usage. Capturing extensive usage information that helps simulate the conditions under failure as part of the warranty system helps in fixing the issue or allow for a change in warranty policy to prevent that usage under warranty in the future.

In the product design phase, the input is from product quality to warranty, in terms of expected failure rates. These expected failure

rates help in designing the right warranty coverage and duration which can then be adjusted based on actual warranty failures.

# Service Logistics

Service Logistics planning and execution to address warranty failures is very important. Inadequate planning can lead to poor customer

experience, and may affect future sales of products, service contracts and accessories.

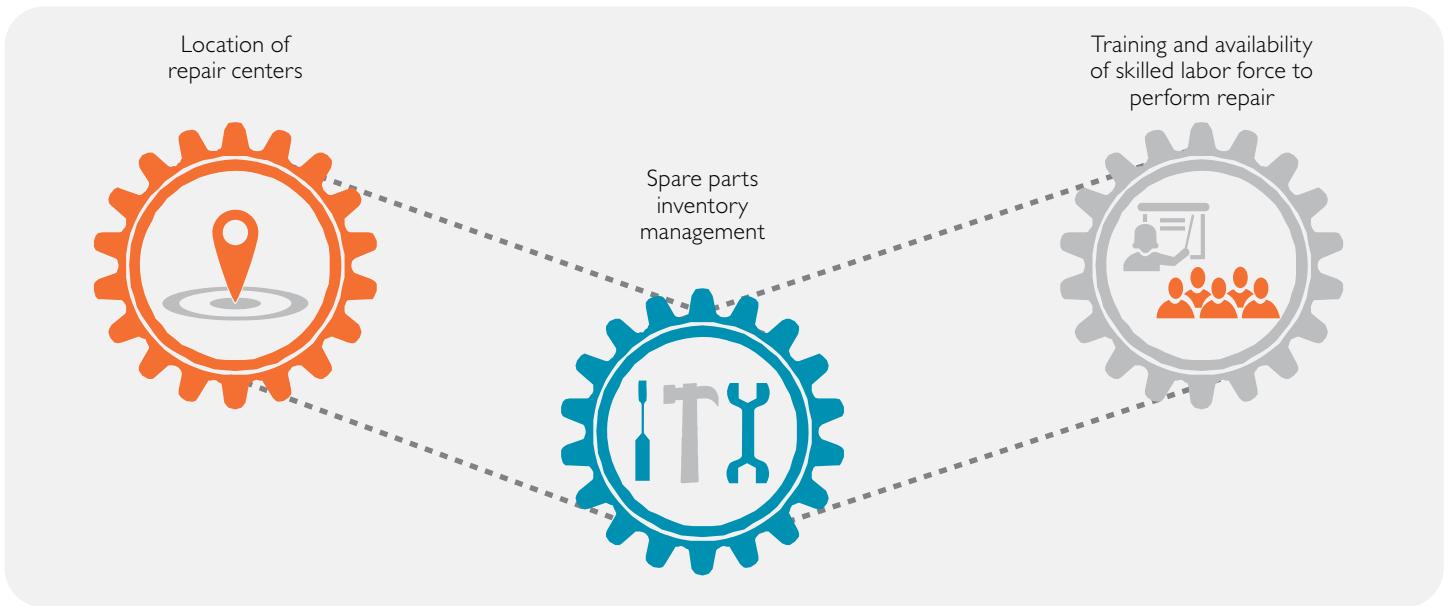


Figure 2. Service Logistics Focus Areas

Following are the broad categories that need to be planned for supporting service for warranty repairs, as shown in Figure 2.


- Location of repair centers – The repair centers need to be accessible to the customers who have purchased the product and are eligible for warranty repairs
- Spare Parts – Adequate stock of spare parts need to be maintained


at the repair center or at warehouses close enough to ensure that the repairs are done fast and there is little delay in customers receiving the repaired product

- Labor Force – Technicians doing repair work need to have the right skills, tools and training on the products that they are repairing under warranty

## Legal

Warranties have legal and regulatory implications. Uniform Commercial Code (UCC) and The Magnuson-Moss Act are two regulations that govern warranty in USA. Companies offering warranty have to:

 Provide the warranty terms in an easy-to-understand manner

 Ensure customers have some level of protection

The TREAD Act requires vehicle industry manufacturers who sell in the USA to submit reports to the National Highway Traffic Safety Administration (NHTSA) indicating warranty claims involving major injuries.

Best-in-class manufacturers have processes that ensure that there is a close working relationship between those administering warranty and the legal department in all aspects related to defining and administering warranty.

# Internet of Things



The Internet of Things (IoT) technology enables products to be connected, having a profound impact on warranty processes.

Products that are connected can be automatically registered. There is no need for a traditional registration process to register the warranty

Sensors that monitor the operating conditions also help ensure that the product is used in the right way and in the right environment. Failure to do so can help in voiding the warranty

The machine data after repair can be immediately verified to see if the repair has been done properly or not, and the alerts that were generated before the repair are not sent

after the repair. This is validation of repair, and enables greater first-time fixes. When a service technician leaves the site after this verification, the customer can be assured that the problem has been fixed.

There is a larger lead time to plan for the parts to be replaced before a machine has actual downtime. The data from sensors helps identify potential parts failures well before the actual failure and associated downtime of the machine. This lead time allows for lowering the cost of parts inventory required for warranty.

Monitoring of products helps identify issues well before product failure and warranty service can be provided based on that to avoid downtime

## Conclusion

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Manufacturers need to develop a comprehensive framework for warranty that addresses the areas outlined above. Doing so will provide crucial differentiation from its competitors to ensure:

- Increased monetization across the product lifecycle from product purchase till end of life
- Increased monetization across the customer lifecycle value in terms of repeat purchases



## About the Author

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**Prasanna Krishnan** belongs to the Service Transformation Group within the manufacturing and Hi-Tech business unit at Wipro Technologies. Service Transformation Group focuses on enabling manufacturers to increase revenues, reduce costs and increase customer satisfaction in all post-sale activities including field service, warranty, customer support and parts.

## About Wipro Ltd.

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