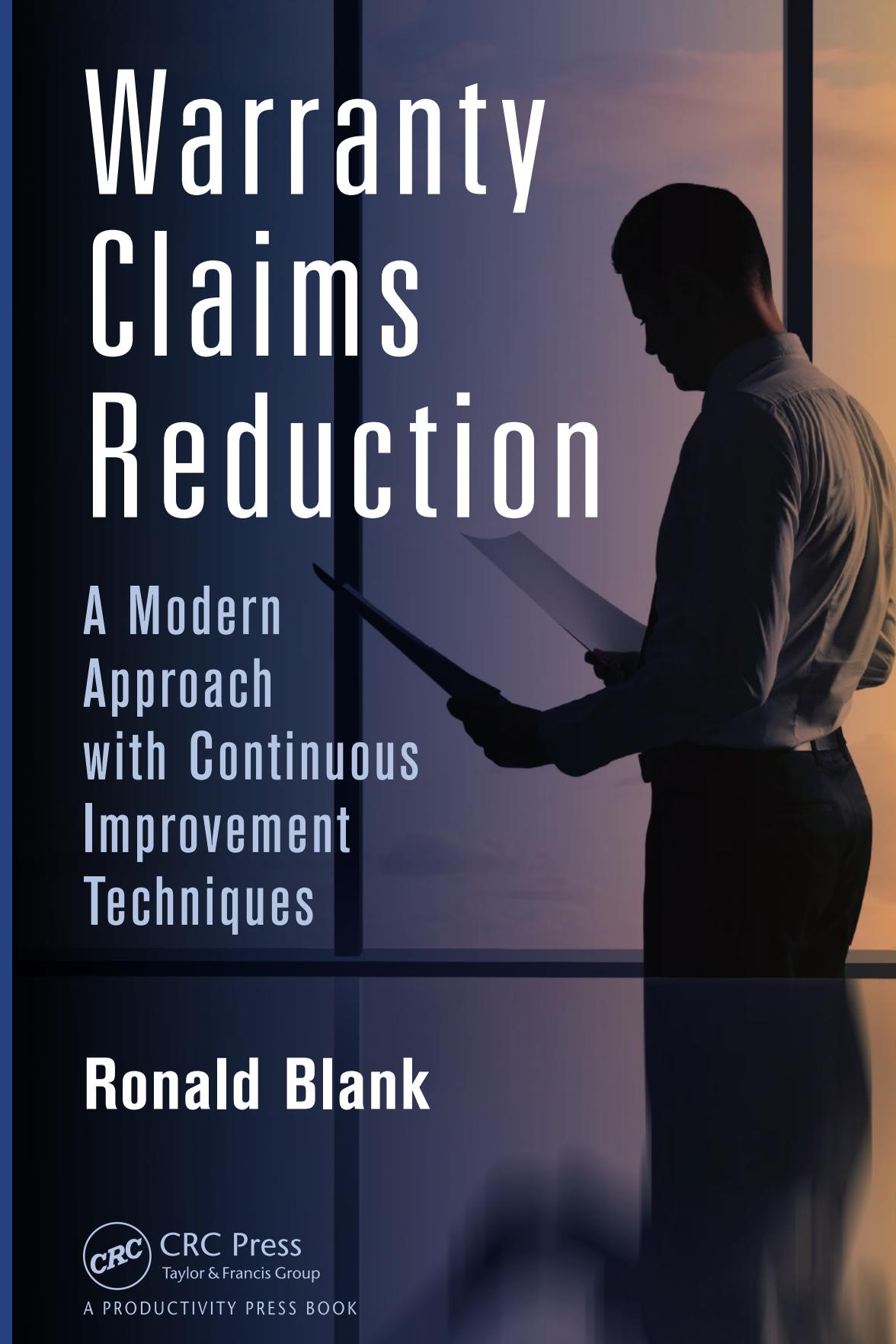


Warranty Claims Reduction



A Modern
Approach
with Continuous
Improvement
Techniques

Ronald Blank



CRC Press
Taylor & Francis Group

A PRODUCTIVITY PRESS BOOK

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Preface

Warranty claims can affect a company in several ways, such as causing reduced market share, lack of repeat customers, and the expenses of warranty claims processing. While these are obvious effects, they are nevertheless burdensome. The reduction of warranty claims processing and its associated costs is an effort worth investigating and is often worth pursuing. This is because money spent satisfying warranty claims reduces profit. Many companies are needlessly reducing their own profits by not reducing warranty expenses, or not reducing them as much as they could. A detailed analysis of the true cost of warranty claims processing can tell you how much you have to gain by reducing those costs and may even point out ways to reduce those costs more than you thought you could. Unfortunately, many companies underestimate their true warranty costs.

Identifying and measuring the true costs of processing your warranty claims are the first parts of managing these costs. While it is true that reducing these costs is a choice, the strategic value of reducing warranty claims cannot be overstated. Reducing both the quantity and the cost of warranty claims processing not only increases profit, but also helps you to maintain your customer base and keep market share. The increase in customer satisfaction and the improvements of your company's reputation are also real effects, even if they are not easily measured.

When companies think of warranty cost reduction, they automatically think of reducing the number of warranty claims. They seek to do this by quality and reliability improvements to their product and by preserving and protecting their product from damage while in transit. These traditional and common strategies are good and effective. They are also limited. This book will show you other ways that the costs of processing warranty claims can be reduced beyond what quality, reliability, and product preservation can do for you. Cost reductions can result from things like improving the productivity of the warranty claims department, improved and more effective planning of workload, changes in work area layout, equipment availability, employee training, supply chain management, and other initiatives. These all contribute to reducing the cost of warranty processing. In fact, most, if not all, of the usual productivity-enhancing

initiatives that apply to manufacturing processes can also be effectively applied to warranty claims.

After Chapter 2, which describes how to capture all of your warranty costs, this book summarizes the traditional and most common strategies for warranty cost reduction. After Chapter 3, which reviews these common methods, the subsequent chapters give you the less conventional, but no-less effective methods. These chapters may broaden the horizons of some managers and supervisors in the way they think of warranty claims processing, and affirm the insight and imagination of others. All levels, from CEO to line supervisors, will benefit from applying these less common methods. In fact, anyone, from the small business entrepreneur to the quality or manufacturing engineer, will benefit from this book. In order to help the reader with all forms of warranty reduction activities, this book also includes chapters on quality improvement, reliability improvement, root cause determination, and developing corrective actions.

The reader need not be concerned about not having a background in accounting or mathematics, as accounting terms are kept to an absolute minimum, and no special mathematical knowledge is needed. The book is primarily about the different, if less conventional, types of actions to take and how to take them. These methods are fully compatible with ISO 9001 systems and its sector-specific variations, such as AS 9100 and TS 16949. In other words, this book is a modern approach to warranty claims reduction and explains a variety of ways to reduce the costs of warranty claims processing beyond the more common and obvious ways. While the methods described in this book include quality and reliability improvement, they also go beyond this conventional thinking to a more holistic approach. The uniqueness of this book is that it takes a much more comprehensive and multifunctional approach for reducing the cost and quantity of claims. The value of the book is that you can reduce warranty costs more than ever and enjoy the resulting improved profits.

About the Author

Ronald Blank, PhD, has more than thirty years of experience in management and engineering. Approximately half of his experience is in aerospace and the other half is in the automotive industry. His education includes statistics, quality assurance, and mechanical and electronic engineering. He also has much experience supervising and training employees, as well as productivity enhancement and warranty claims reduction. He earned a bachelor of science degree and a doctor of engineering degree. Dr. Blank is the author of several books on various management and engineering topics, including reliability and productivity improvement.

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Warranty Claims

Whether you sell your products for consumer use, sell wholesale to other industrial companies, are doing business with a government, or even performing a service, warranties are a necessary component of both your profits and your losses. Proper warranty management can help achieve success in reducing your warranty expenses and quantities. This is important because lack of control over warranties and excessive warranty costs can really hurt your bottom line. This book will tell you how to properly manage your warranty system, reduce the number of warranty claims, reduce warranty costs, and increase customer satisfaction. All of these will inevitably result in increased profit.

The terms of a warranty are the major determinants of warranty cost control. Warranties that cover parts only will cost less than warranties covering both parts and labor. Some warranties, known as delegation warranties, may delegate some responsibility for repair or replacement to distributors or retailers. This is one strategy for reducing manufacturers' warranty expenses. Duration of a warranty is another factor. Either the entire coverage can expire after a certain amount of time, or coverage can gradually decrease over a period of time. There may be a stepped reduction at specific time periods. For example, parts and labor may be covered for the first year, then parts only for the second and third years.

Warranties that cover consequential damage are potentially more expensive since you not only cover your own product, but also have to cover the cost of any damage your product does to the customer's product or end user item. For example, if you manufacture a freezer for restaurant use and it fails during operation and all the food it contains thaws out and spoils, you will have consequential damage. If you offer coverage for consequential damage, you have to cover not only the cost of repair or

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replacement of the freezer, but also the cost of the spoiled food and the loss of sales in the restaurant's business.

Since the terms of a warranty are also a marketing tool that may entice a customer to purchase your product, as well as a major cost factor, you have to choose the warranty terms very carefully and express them in precisely the right wording. You must find a balance between the cost of the warranty coverage and its benefits. This is ideally done with hard data, but the benefit of the warranty coverage in terms of its effectiveness as a marketing tool is difficult to measure. This is because you do not know exactly how much your warranty is increasing sales. Most companies simply choose to have a warranty that is similar to, or slightly better than, that of their competition. You can benchmark your warranty against those of similar companies and products.

Replacement warranties are best for products that are designed to be nonrepairable. Repair warranties apply to repairable products, but are rarely for consumer or user serviceable repairs. Instead, repairs are performed by trained personnel at service centers, which may or may not be third-party businesses. Often consumers prefer to replace the product as a means of obtaining the latest technology. The rate of technological advancement is one factor that a customer, especially consumers, will use in determining whether or not to replace the product. Another factor is the cost of repair versus the cost of replacement. If the repair cost is lower than the replacement costs, then doing the repair makes sense, at least economically in the short term. But when the repair cost is too high, they may want to consider replacement. Terms of your warranty are therefore a factor in the decision to repair or replace. For rapidly developing technologies replacement is often preferred.

The kind of warranty you apply to your product depends mostly on which is more economical for your company, the repair cost or the replacement costs. However, customer relations and market forces may also influence the warranty plan. Once the decision on the kind of warranty you offer your customers is made, the length of the warranty and the funds required to cover the costs have to be determined. Here again, the rate of technological advancement is a consideration. The warranty period should always be shorter than the time it takes for the product to become obsolete. However, the single most important parameter in estimating the warranty length is the operating life of the product, which is the elapsed time to failure during use of your product. It is known as the operating life. You may also consider the failure rate during just the beginning of the