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## **An End-to-End Strategy for Improved Warranty Management Capabilities**

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## Making warranty management more than an afterthought

Few companies today are paying enough attention to their warranty management capabilities. The entire area of service management is mostly an afterthought, and warranty management only an afterthought of an afterthought.

But the numbers are staggering. In the U.S. alone, the warranty business accounts for about \$2 billion each month, or just under \$24 billion annually. Approximately two percent of every sale goes to warranty spending. At about a dozen major U.S. manufacturers, warranty spending occurs at the rate of about \$1 million each day.

Still, more effective warranty management processes are not on the radar screens of most executives today. In practice, companies often pay attention to their warranty management processes only when high levels of liability are involved with a claim or recall. As a consequence, they are missing opportunities for significant bottom-line cost savings, as well as increased business value through better-quality products and higher levels of customer satisfaction and loyalty. Businesses in search of high performance today need to be treating warranty management not as a cost center, but as an asset that can create tangible shareholder value.

The potential benefits are tangible and impressive:

- Improved revenue streams through sales of extended warranties and additional related products.
- Higher levels of quality by improving the information flow about product defects and their source.
- Better customer relationships, driving improve customer loyalty and continued sales.
- Reduced expenses related to warranty claims and processing, as much as 25 percent.

## Overcoming the obstacles

What is standing in the way of better warranty management? Here are a few of the obstacles:

- Warranty processing is labor intensive and information systems support is often limited. One company in the U.K., for example, processes 15 different documents for a single invoice, and redundant information must be entered multiple times. The result: an average of 2.75 hours spent on each invoice.
- The cycle time for claims review and reimbursement is long; at some companies, the process can take months and places an unnecessary administrative burden on the company.
- Warranty policies are not effectively enforced, leading to excessive numbers of fraudulent claims. Some estimates indicate that up to 15 percent of warranty payments are the result of fraudulent or invalid claims.
- Companies often do not have effective processes in place to distinguish their warranty responsibility from a supplier's. Quality issues may stem from a subcomponent or part, but the OEM may cover the warranty costs anyway.
- Warranty data is not effectively used to improve product quality. Time lags of a hundred days or more from claim entry to analysis are typical. These delays often lead to additional claims as a result of slow corrective actions in manufacturing, engineering or product design. Analysis methods may also be ineffective because of a reliance on basic methods

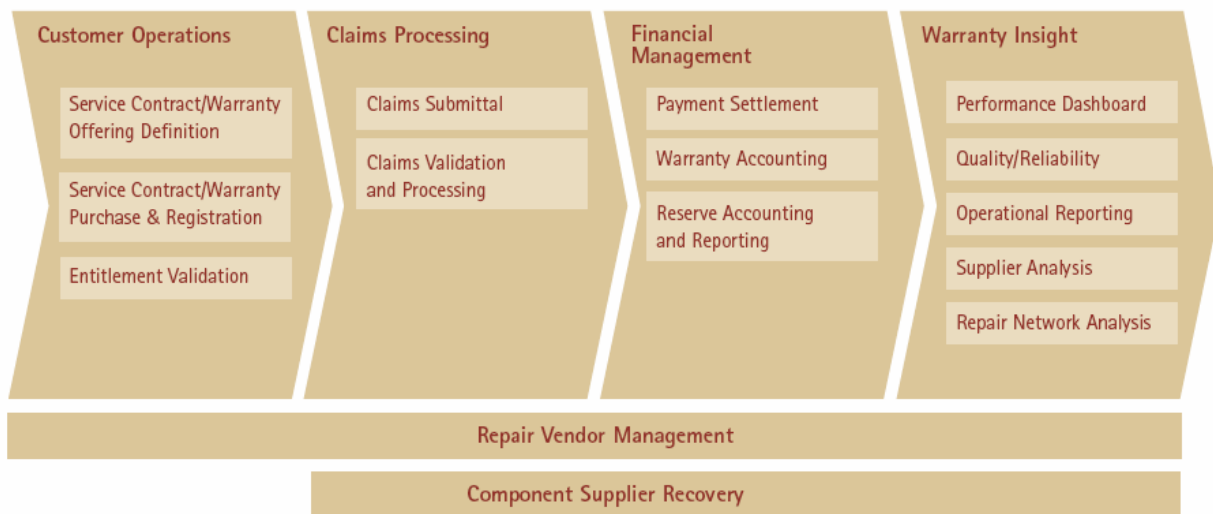
and tools such as Pareto analysis and spreadsheets instead of robust statistical analysis performed on multiple sources of data stored in a data warehouse.

## An end-to-end warranty management process

The key to effective reengineering of warranty management is in finding the most critical leverage points within a comprehensive, end-to-end process flow. Effective warranty management requires the integration of leading practices across a number of major areas (see figure).

### Accenture Warranty Management Process Model

The Accenture Warranty Management Solution integrates innovative and effective processes and tools in a number of integrated areas.



This strong end-to-end warranty management process will resonate across the organization, from product design to marketing to manufacturing, sales and service.

| Multiple Groups Benefit from an End-to-End Approach to Warranty Management  |   |
|---|---|
| <p>Product Design</p> <ul style="list-style-type: none"> <li>• Design for serviceability</li> <li>• Remote diagnosis</li> <li>• Remote fix</li> <li>• Standardization</li> <li>• Concept/Feasibility</li> </ul> <p>Marketing</p> <ul style="list-style-type: none"> <li>• Customer satisfaction and loyalty</li> <li>• Competitive insight</li> <li>• Customer response</li> <li>• Channel insight</li> </ul> | <p>Manufacturing</p> <ul style="list-style-type: none"> <li>• Product quality</li> <li>• Supplier quality</li> <li>• Conditional service</li> </ul> <p>Sales</p> <ul style="list-style-type: none"> <li>• New revenue from new concepts and extended warranties</li> <li>• Customer knowledge</li> </ul> <p>Service</p> <ul style="list-style-type: none"> <li>• Fraud detection</li> <li>• Focus on value adding services instead of warranty work</li> <li>• Product knowledge</li> <li>• Customer knowledge</li> </ul> |

### Finding the value leverage points

Using this end-to-end model, companies can then find the key leverage points that can produce the most improvement and value for them, depending on their existing service management and warranty management capabilities. These leverage points can help companies improve business performance by maximizing cost reduction and value creation. For example:

- **Claims processing time.** A best-in-class performer in warranty management may be able to process claims within two days. Yet the average time for processing at some companies can be weeks or even months.
- **Claims processing costs.** Average processing costs per claim for companies using manual or semi-automated procedures are more than \$16, and can run much higher in some cases. Compare that to a fully-automated processing approach where the cost can drop to less than 40 cents.
- **Number of claims processing personnel.** Thanks to automated, rules-driven processing, best-in-class performers often require less than half the number of staff to perform claims processing.
- **Quality.** Customer loss related to poor product quality reduces distribution channel profitability and increases spending on new customer acquisition. One telecommunications products manufacturer, for example, has suffered through a period when 60 percent of new products were returned for repairs. That's a burden few companies can overcome.

- **Supplier recovery.** One computer equipment manufacturer conducted an analysis of its warranty expenses and found that 20 percent of expenses were traceable to a single supplier. Yet too few companies have processes in place to share warranty responsibility with their suppliers. Doing so has at least two major benefits. First, costs are shared; second, quality improves because a supplier has better information about (and more incentive to improve) its quality processes. The result is lower warranty costs, better products and higher levels of customer retention.

How much potential business value exists right now in the typical company that could be mined through more effective warranty management capabilities? Consider a hypothetical company with \$10 billion in annual revenues and warranty expenses at three percent. Reasonable cost savings from reengineered warranty management processes would include:

- \$45 million in savings from better fraud and invalid claims identification
- \$5 million in administrative cost reduction
- \$10 million in recovery of costs from suppliers
- \$30 million in cost savings from increased quality

Bottom line: more than \$90 million in annual savings.

For a specific example, consider one global computer manufacturer that had initiated a major return on invested capital (ROIC) improvement project to enhance customer satisfaction, while at the same time lowering its service and support costs. We worked with company executives to determine the potential value of warranty fraud reduction, examine the company's current actions in response to warranty audit reports and then outline an action plan to achieve the expected benefits.

The project team took a multi-dimensional approach to enhancing the company's warranty management capabilities, focusing on policy, prevention and partnerships. The team identified fraud-related savings from \$32 million to \$100 million annually. As the work proceeded, short-term improvements (such as field audits and policy and process improvements) were coupled with long-term operational changes (such as technology and workforce initiatives) to deliver value quickly as well as into the future. The team put in place new analytics, and also improved the alignment between the organization, the warranty claims policy and the systems to track and analyze performance. The business benefits delivered to the company through this program are very real: total savings are estimated at \$77 million.

## Effective diagnosis and opportunity evaluation

Transformation of existing warranty management processes needs to start with a diagnosis of the current state, to identify the key opportunity areas to reduce warranty costs and to get better control on the whole warranty process. Such a diagnostic, though not necessarily a lengthy initiative, must be as comprehensive as possible, including interviews with key personnel, examining warranty management processes, policies and system capabilities. The diagnostic then identifies improvement opportunities through process and data analysis and comparison to lagging-to-leading warranty management business practices.

## Enabling the change: An integrated view

This vision of more effective end-to-end warranty management processes is not realized overnight. For most companies, it will involve transformational change in at least four dimensions:

- **Strategy:** Executives must engage in ongoing dialogue about how to use warranty management as a source of differentiation, competitive advantage and profits. New approaches must be devised to share responsibilities and costs with suppliers and customers. Outsourcing strategies must also be considered: what core competencies and processes should be retained in-house, and what can be outsourced for greater efficiency.
- **Organization.** Companies must consider which department will own the warranty management process. A distribution network and suppliers must be trained to manage warranty functions correctly and effectively. This means identifying the core skills and competencies needed to manage and analyze claims.
- **Business processes.** Warranty processes, based on a new end-to-end view, must be streamlined to remove bottlenecks. These processes need to be extended out to reach customers, distribution networks and suppliers. The right package of metrics must be put in place to ensure process efficiency and to measure progress toward reaching business objectives.
- **Technology.** New technologies must be put in place that ensure integration and sharing of warranty data and systems with suppliers and customers. New tools and solutions are now available that can support warranty processing and data analysis. The type of solution must be chosen, based on need, urgency and budget: a custom software package, an off-the-shelf solution, or an Application Service Provider solution.

The outsourcing option in particular is something companies must consider if they are truly to drive down costs and make a transformational impact on business performance. Evidence is mounting from a number of sources, including analyst organizations, that interest in warranty management outsourcing is increasing.

Comprehensive business process outsourcing (BPO) services for warranty management, as well as other aspects of the overall service management function, are being explored in most industries. Companies successfully deploying an outsourcing strategy are realizing significant benefits from their warranty management transformation initiatives, including:

- 10 to 20 percent productivity gains.
- 5 to 10 percent improvement in parts delivery service levels.
- 15 to 20 percent reduction in warranty claims.
- 10 to 15 percent reduction in contact center interactions.

These benefits are achieved through:

- Standardization to leading business processes.
- Centralization of resources to lower cost locations and reduction in headcount through consolidation.
- Process and systems alignment allowing rapid transformation.
- Lower management costs.

## Applying leading-edge technologies to revolutionize warranty management

One of the developments in information technology that promises to revolutionize warranty and service management involves the whole area of sensors, embedded in products or most any physical object. Sensors, equipped with transmitters, can record information about when and where an item was purchased, by whom, and even how that product has been treated in shipping and storage, or after it was purchased.

In their simplest form, sensors are electric transducers that translate a physical property into an electrical signal. Think of the thermostat on your wall at home: that's what it does. Sensors detect physical phenomena—such as temperature, humidity, light or acceleration—and then report back a measurement of the phenomena by transmitting an electrical impulse.

Today, however, technological innovations have moved sensors well beyond their original capability as simple, standalone detection devices. By continuously connecting a variety of sensors through short-range wireless connections, sensors are moving beyond individual smart objects to create complex networks that will enable manufacturers, retailers and others to see the performance of their supply chain, and even after-purchase details, in near real-time.

In something that we call "silent commerce," sensors are embedded in objects themselves, along with memory, power supply and wireless networking capability. The object then can communicate details about how it is being used or treated. Manufacturers can build on sensor capabilities to realize a number of other benefits, such as:

- Improved quality assurance
- Reduced warranty fraud
- New warranty offerings

Because sensors can record when a product was sold, where, and how it was treated, the potential to reduce warranty fraud and error is great. In addition, warranty promises are frequently ambiguous. Sensor technology could help define warranties by measurable thresholds. In a "my word against yours" situation, sensors could be a more reputable adjudicator.

Manufacturers could gain better insight into the number of fraudulent claims submitted due to product mistreatment and then deny these fraudulent claims. Companies could also reduce claims processing time and effort, because automated procedures using sensor data would take over many of the manual processes.

### **Conclusion: Better warranty management to achieve high performance**

Our research at Accenture continues to find that one of the keys to achieving high performance today, in any industry, is the ability to translate insight into action. An end-to-end warranty management process, combined with today's leading technology solutions, enables companies to gain better visibility into their supply chain and their customers, and then use that insight for continuous improvement in quality, for cost reduction, fraud reduction and new service offerings based on warranty capabilities.

It's important to think end-to-end when it comes to transforming warranty management capabilities. And it's also important to think creatively. The opportunity gains are potentially very large. With a firm diagnosis in hand, as well as a clear roadmap, the journey to high performance through better warranty management can be a satisfying one.

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