

How the Right Warranty Management Solution Can Help Improve Your Organization's Bottom Line!

Executive-level Results from SFGSM's 2017
Warranty Chain Management Benchmark Survey

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STRATEGIES FOR GROWTHSM

"RESEARCH ANALYSTS TO THE SERVICES INDUSTRY"

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Introduction and Survey Respondent Disposition

Each year, Strategies For GrowthSM (SFGSM) conducts a series of Benchmark Surveys among its outreach community of more than 39,000 global services professionals. Total responses for the 2017 Warranty Chain Management Benchmark Survey, conducted in January/February 2017, are 215.

An overview of the survey respondent disposition reflects a microcosmic representation of the global Warranty Management services community, as follows:

- > 51% Manufacturer/OEMs or Third Party Maintenance (TPM) providers; 22% Professional Services; 8% Authorized Services Providers; 5% Dealer/Distributors; and 14% In-house/Self-Maintenance
- > 79% North America, 11% Asia-Pacific, 9% EMEA and 1% South America
- > 26% C-Level/VP/GM; 57% Services Operations Director/Manager; and 17% Services Technician and Other
- > 36% Small Enterprises (i.e., less than US\$100 million); 32% Medium Enterprises (i.e., between US\$100 and US\$999 million); and 32% Large Enterprises (i.e., US\$1 billion or larger)
- > 32% High-Tech/IT Services; 18% Industrial/Manufacturing; 22% Medical/Healthcare; 17% Consumer/Retail; and 11% Other (including Home Services, Automotive/ Aerospace, Construction, etc.)

As such, we believe the survey results to represent a realistic reflection of the global warranty chain management community in which we all serve.



Putting Things in Perspective

Overall, survey respondents identify the following as the top factors that are currently driving their desire – and ability – ability to optimize warranty management performance:

- > 47% Post-sale customer satisfaction issues
- > 43% Desire to improve customer retention
- > 36% Customer demand for improved warranty management services

In order to effectively address these challenges – and strive to attain best practices – respondents then cite the following as the most needed strategic actions to be taken:

- > 43% Develop / improve metrics, or KPIs, for advanced warranty chain analytics
- > 28% Foster a closer working collaboration between product design & service
- > 28% Institute/enforce process workflow improvements for supplier cost recovery

The remainder of this white paper provides additional insight into each of these and other related areas that may be impacting your organization's drive to attain warranty chain management best practices through the use of a Cloud-based solution.

The survey results reveal that roughly two-thirds (66%) of respondent organizations currently operate service as an independent profit center (or as a pure, third-party service company), compared with only 34% that operate as cost centers. At these percentages, the warranty management respondent base represented in the survey reflects a consistency over the past few years, and mirrors the overall composition of the global services marketplace.

Further, the two-thirds ratio supports the supposition that it would strongly benefit services organizations that are attempting to keep their customers satisfied – and make an attractive profit by doing so – to put into place a well-structured, automated and Cloud-based warranty management solution designed both to satisfy customers, and contribute directly to the bottom line.



When asked how important effective warranty management is to the overall financial performance of the business, roughly three-quarters (73%) of respondents believe it to be at least “very important”, with just over a quarter (26%) believing it to be “extremely important”. Only 8% believe that effective warranty management is “not very important” or “not at all important” to the business’s bottom line (and, as a group, they are typically not directly involved in the day-to-day warranty chain management activities).

Not only is warranty management acknowledged as important to the well-being of the business, this sense of importance is increasing substantially, year-over-year, as evidenced by the following findings: While roughly two-thirds (67%) of respondents believe warranty management is of the same importance to the business this year as it was in the previous year, nearly one-third (30%) believe it to be “more important than one year ago”, compared to only 3% believing it to be “less important” – a ratio of 10:1 citing warranty management to be “more important” over “less important”.

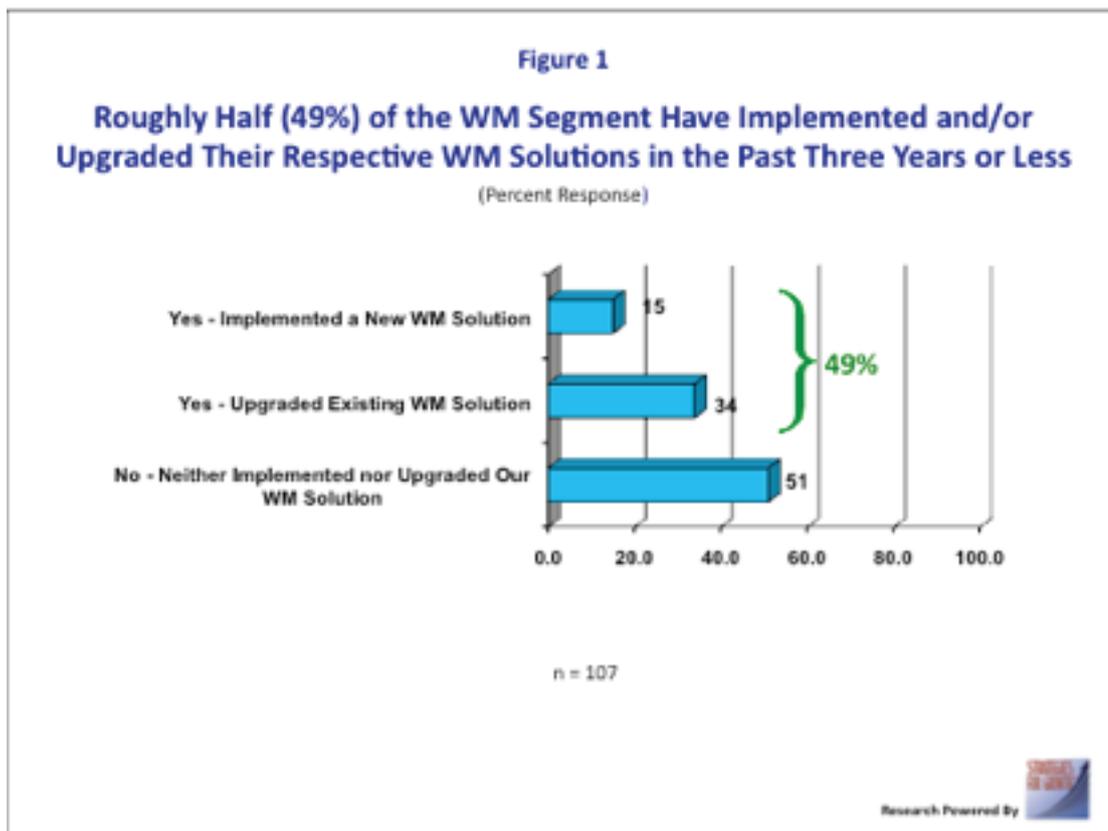
However, while the importance of effective warranty management is sufficiently validated by the responses to the survey, a majority of warranty management solution users are not as duly impressed with the vendors that render them these services. For example, only 42% of respondents are presently satisfied with the services and solutions provided by their respective primary warranty management solution vendors – including a stunningly low 12%, or only one-out-of-eight, who are “extremely satisfied”.

In fact, just under half of users (44%) rate their perceptions of the performance of their primary vendor as “neither satisfied nor dissatisfied” – or what we would normally describe as a “complacent” user base. While only 3% of users claim to be “not at all satisfied”, there are still a total of 15% that fall into the “dissatisfied” category.

Research shows that a majority (i.e., 50% or greater) of the dissatisfaction that users have with their current vendors apparently stems from the importance that the market places on key factors including cost of services (70%), followed by the industry reputation and warranty management experience of the vendor (i.e., at 47%, each). Other factors influencing performance perceptions include the vendor’s data/information reporting capabilities (41%) and specific geographic experience (38%).

Roughly half (49%) of the survey respondents’ organizations have either implemented a “new” warranty

management solution, or upgraded their existing solution, within the past three years or less. Of this amount, about one-in-seven (15%) have implemented a “new” solution, while more than one-third (34%) have upgraded their existing solution. The remaining 51% are currently using warranty management solutions that are, at least, three years old, or older (Figure 1).



The survey research clearly shows that those organizations that have implemented “new” warranty management solutions have realized the greatest levels of performance improvement – certainly, much greater than for those that have merely upgraded their respective Warranty Management solutions. The Key Performance Indicators, or KPIs, that reflect the greatest improvements for each category of organization are as follows:

Warranty Claims Processing Time:

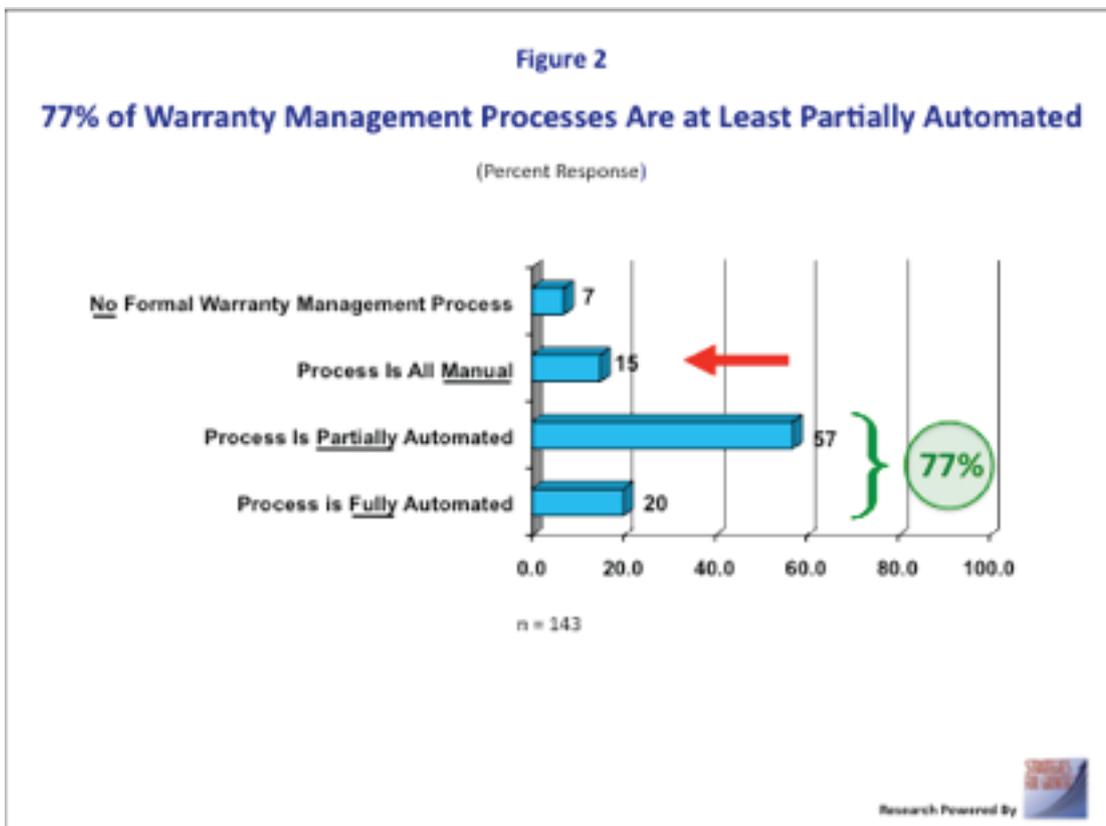
- > 14% Performance improvement for “New” Implementations
- > 6% Performance improvement for Upgrades

Supplier/Vendor Recovery (as a percent of Total Warranty Expense):

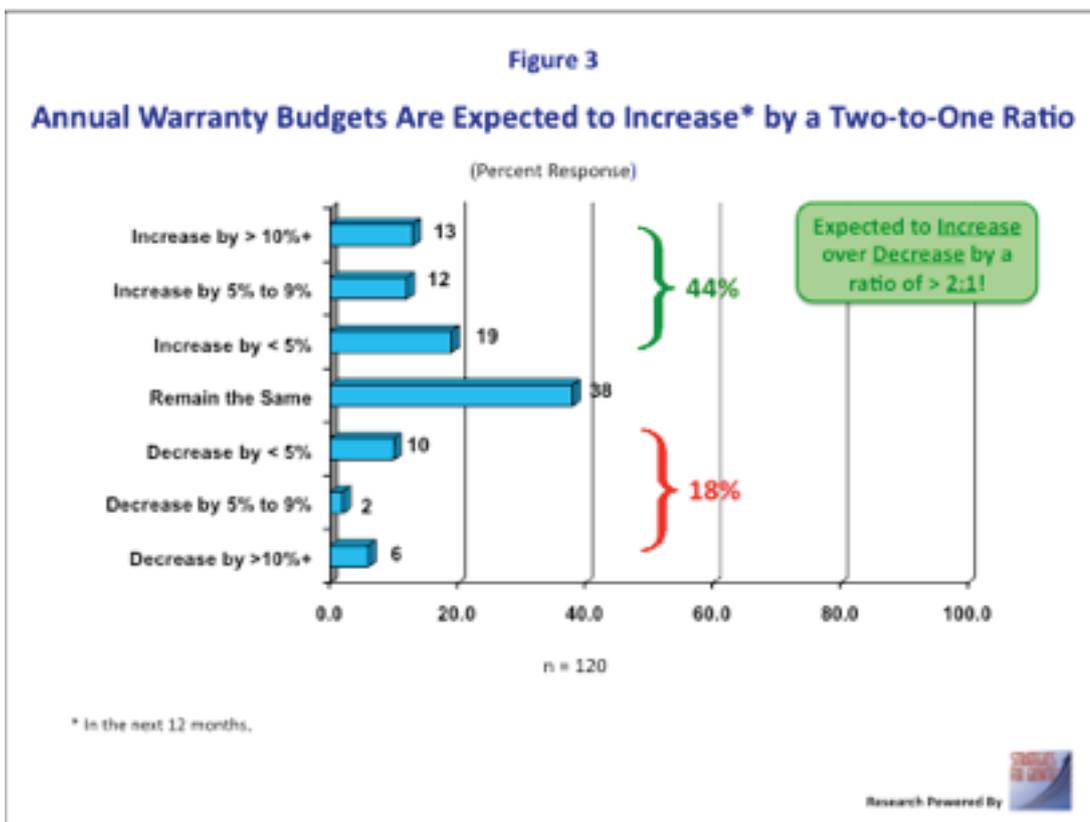
- > 8% Performance improvement for “New” Implementations
- > 5% Performance improvement for Upgrades

On the surface, it also appears encouraging that more than three-quarters (77%) of respondents are currently running their warranty management operations using at least “partially automated” processes. However, this percentage is, unfortunately, not actually all that encouraging as only about one-in-five (20%) claim to have “fully automated” warranty management processes currently in play at their respective businesses.

The remaining more-than-half (57%) of respondents that cite only “partially automated” processes currently in play may only represent, for some, nothing more than a modestly better process than simply working with spreadsheets, outdated applications, or other applications that were not originally intended for performing warranty management – at least not with the high levels of functionality required today in order to attain “real” results (Figure 2).



Further, by aggregating the corresponding categories of automation, the current market base reflects one where, although 77% of respondents claim to be using at least “partially automated” warranty management processes, there are a nearly equal amount (72%) for which manual processes are still most heavily relied on. There are also another 7% or so of respondents whose organizations have no formal warranty management process at all – neither automated nor manual! Regardless of the current state of automation – or lack thereof – within the broadly defined warranty claims management segment, one thing is extremely clear: services organizations plan to increase their annual warranty management budgets over the next 12 months. For some (i.e., 19%, or about one-in-five), the increase will be modest, at less than 5%; however, another 12% (i.e., or about one-in-eight) plan to increase their respective budgets by between 5% and 9%. Still another 13% plan to increase their budgets by more than 10% (typically in the $\pm 20\%$ range) (Figure 3).



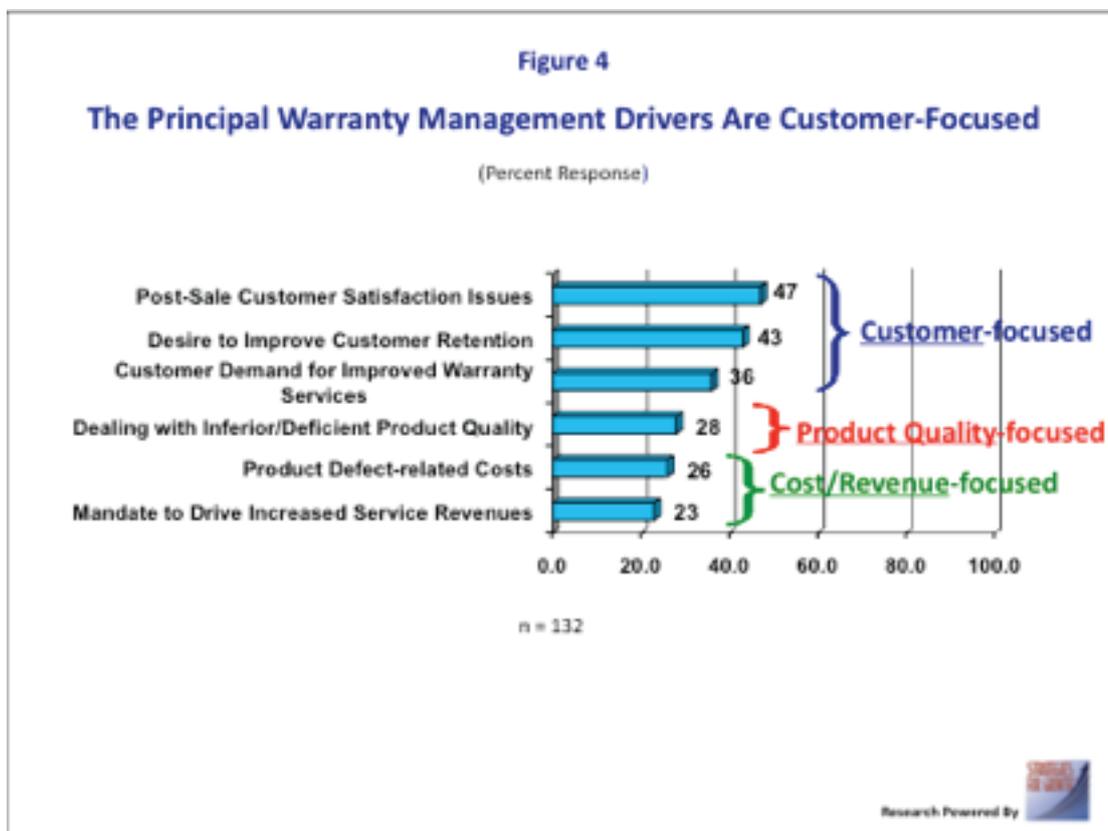
There is still a 38% plurality of respondents that basically plan to hold steady by keeping their annual warranty management budgets at their present levels over the next 12 months. However, for those organizations planning to decrease their budgets, most will hold their reductions to less than 5% (i.e., cited by 10% of respondents). Only 2% plan to decrease their budgets by between 5% and 9%; and only 6% expect to reduce their budgets by more than 10% (again, typically in the $\pm 20\%$ range).



All told, over the next 12 months, nearly two-and-a-half times as many services organizations plan to increase their annual warranty management budgets, compared to those planning to decrease. The derived ratio of > 2:1 expected to increase over decrease suggests a strong – and growing – global warranty chain management segment.

The respondents to the survey have also clearly identified the specific drivers that are pushing them to aspire to the attainment of higher levels of performance. In fact, they have provided responses that suggest there are three main “clusters” of factors that drive their respective businesses:

Customer-focused, Product Quality-focused and Cost/Revenue-focused – and in that order (Figure 4).



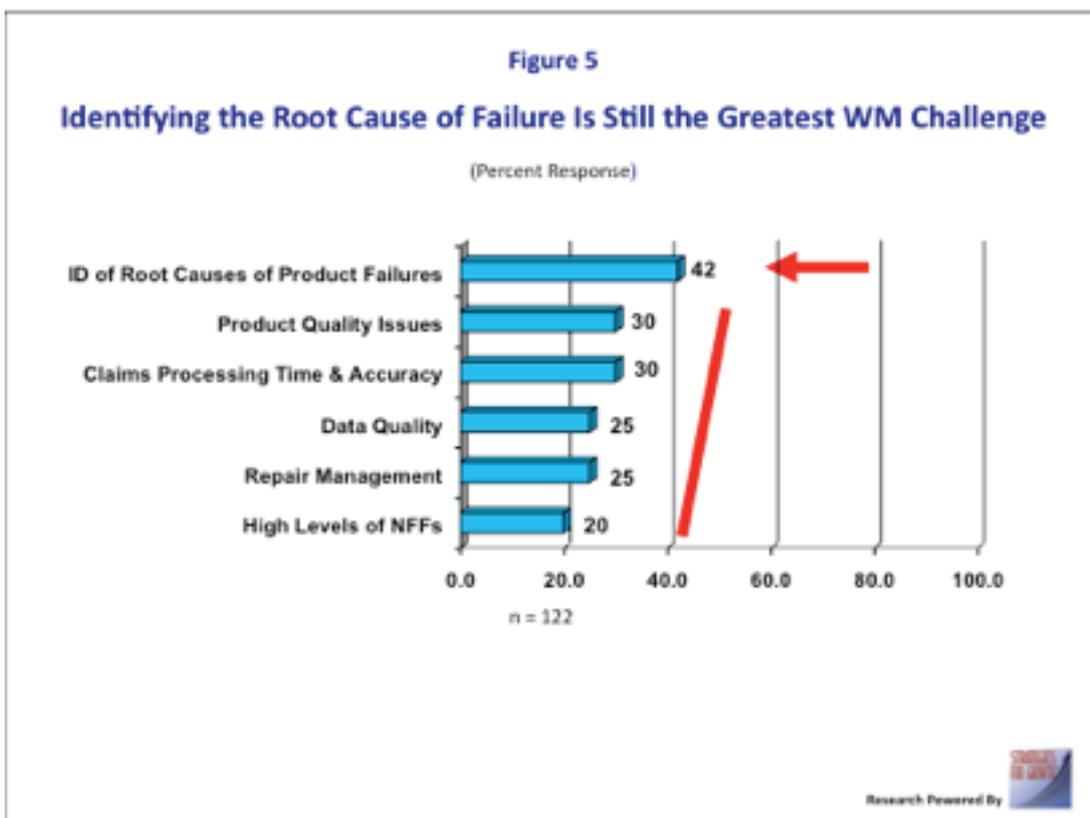
For example, among the Customer-focused drivers, post-sale customer satisfaction issues (47%), the desire to improve customer retention (43%) and customer demand for improved warranty services (36%) are the top three drivers with respect to optimizing overall service performance. No other drivers are cited by more than just over one-quarter (28%) of respondents.

The next “cluster” of drivers is Product Quality-focused, and is represented solely by dealing with inferior/deficient product quality at 28%. The third “cluster”, Cost/Revenue-focused, is comprised of two closely-related drivers: product defect-related costs (26%) and internal mandate to drive increased



service revenues (23%). As such, the warranty chain management community has made it clear that it is squarely focused on, first, satisfying – and retaining – its customers; second, dedicated to improving product quality-related issues; and third, mandated to bring down costs and drive increased warranty revenues through improved warranty management services – again, in that specific order. While the principal drivers may be customer-, product quality- or cost/revenue-focused, warranty services managers are also faced with a number of challenges that come from many different areas. The top challenge, as cited by just under half (42%) of the survey respondents, is the ability to identify the root cause of product failures.

However, between one-quarter and one-third of respondents also name product quality issues (30%), claims processing (i.e., the time to process, accuracy, etc.) (30%), data quality (25%), repair management (25%), and high levels of No Faults Found (NFF) (20%) as significant challenges as well (Figure 5).





Other top challenges faced by warranty managers include:

- > 20% Logistics and/or reverse logistics costs
- > 18% Mandate to improve service profitability
- > 14% Compliance to regulatory requirements
- > 13% Need to improve supply chain performance
- > 11% Escalating warranty administrative costs

Thus, warranty managers may often find themselves deluged with additional challenges that relate to such key bottom line-oriented issues as logistics, compliance, escalating costs and the overall management of their supply chain performance, among others. Based both on the survey findings and SFGSM's ongoing research, it is not surprising to find that the warranty management community recognizes that it will need to continue to foster a closer working collaboration between product design and service, as well as institute – and enforce – process workflow improvements for supplier cost recovery. In fact, these are among the top three strategic actions presently being taken by the global community. The number one current strategic action, however, is developing and/or improving the metrics, or Key Performance Indicators (KPIs) used to measure advanced warranty chain analytics – the one strategic action currently being taken by a plurality (43%) of respondent organizations.

Overall, the top strategic actions cited by one-quarter (25%) or more of respondents representing the warranty management services community are:

- 43% Develop/improve the KPIs used to measure advanced warranty chain analytics
- 28% Foster a closer working collaboration between product design and service
- 28% Institute/enforce process workflow improvements for supplier cost recovery
- 27% Streamline parts return process to improve overall efficiency

However, there are still other strategic actions that the leading warranty management organizations are currently taking, including restructuring for improved warranty management oversight and accountability (23%); purchasing and/or upgrading an automated warranty chain management solution (22%); improving warranty management-related planning and forecasting activities (20%); outsourcing



some, or all, warranty management activities to third parties (20%); and implementing a claims review process to curb fraudulent claims (20%).

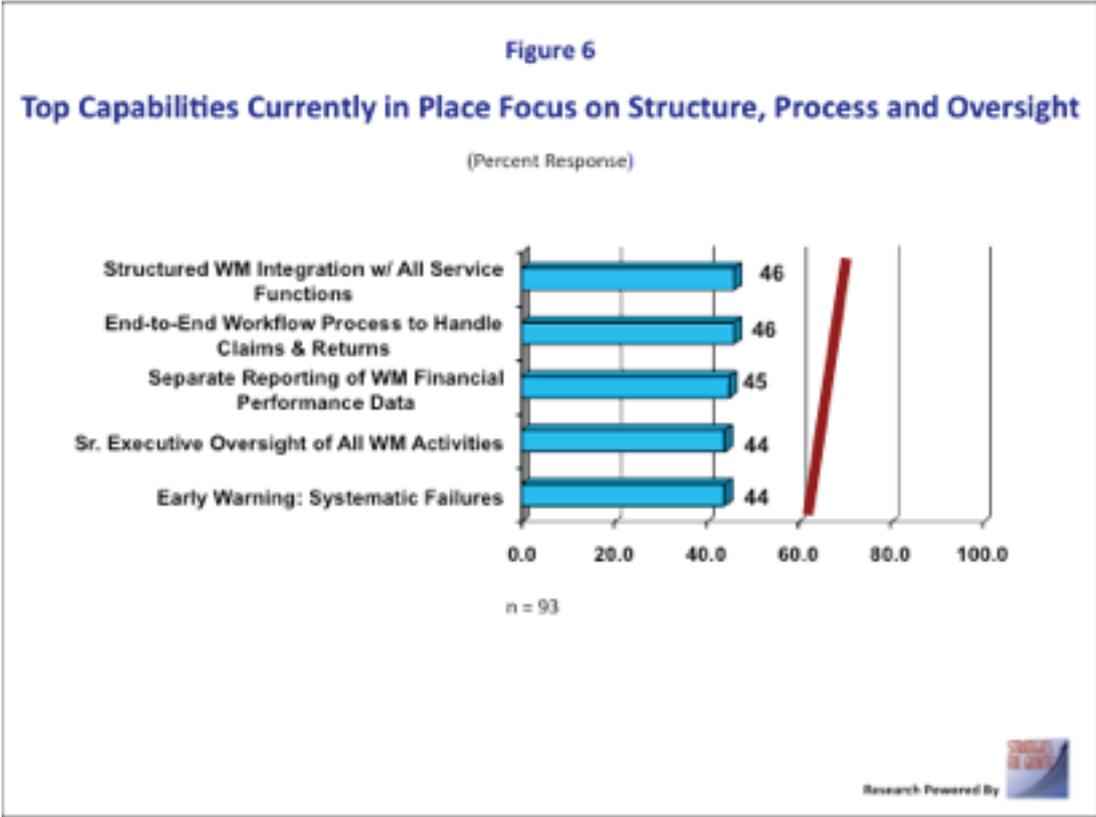
While the global warranty management community appears to understand the importance of streamlining efficiencies and improving services planning and forecasting, it also recognizes that it will need to develop and/or improve the Key Performance Indicators (KPIs), or metrics, it uses to measure the impact that any of these activities, acquisitions and technology advances will actually have on the organization's performance over time.

Planned strategic actions over the next 12-month period reflect a similar, and fairly dynamic, rather than static, approach to warranty management. For example, 26% of respondents plan to develop and/or improve their KPI programs, 25% plan to restructure for improved warranty management oversight and accountability, 24% plan to improve warranty management-related planning and forecasting activities and 22% plan to institute/enforce process workflow improvements for supplier cost recovery. An additional 19% also plan to foster a closer relationship between product and service, and 18% plan to purchase and/or upgrade an automated warranty chain management solution.

All told, these current and planned strategic actions reflect a community that is in tune with the importance of performance measurement – but recognizing that they will also need to improve the key processes and components that they will be measuring.

☑ More than three-quarters (77%) of respondents have already integrated their warranty management activities into a pervasive resource within the enterprise. By leveraging the knowledge they obtain through their warranty management programs into other areas within the enterprise, they have been able to share their resources in a collaborative way throughout the organization. This, in turn, has allowed them to establish collaborative relationships between and among the organizations and individuals that manage extended warranty sales, warranty management services, warranty pricing and the like.

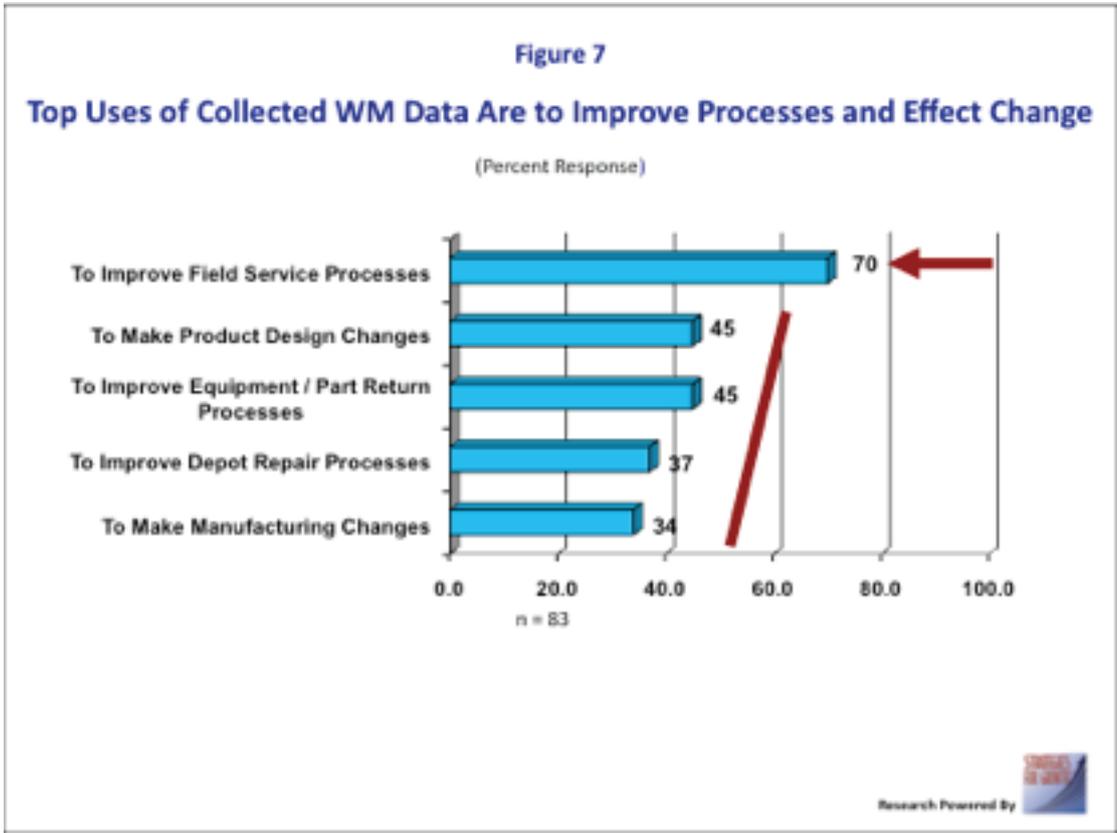
Individual top capabilities currently in place at nearly half of respondent organizations include structured warranty management integration with all service functions (46%), end-to-end workflow processes to handle claims and returns (46%), separate reporting of warranty management financial performance data (45%), senior executive oversight of all warranty management activities (44%), and early warning: systematic failures (44%) (Figure 6).



Additional capabilities currently in place at a near-majority of organizations, include:

- > 44% KPI measurement: Total Warranty Costs
- > 41% KPI measurement: Claims Processing Time
- > 40% Centralized data warehouse

The key to success for warranty management organizations – and the other organizations within the enterprise with which they interact – is not so much related specifically to what data they are collecting, but, rather, how they use that data to improve their overall performance. For the global warranty management community, the main uses of the data they collect are mainly related to improving field service processes (70%), followed by making product design changes (45%), improving equipment/parts return processes (45%), improving depot repair processes (37%) and making manufacturing changes (34%) (Figure 7).



As such, most of these uses are related to either improving existing processes and/or effecting change in the way products are designed and manufactured.

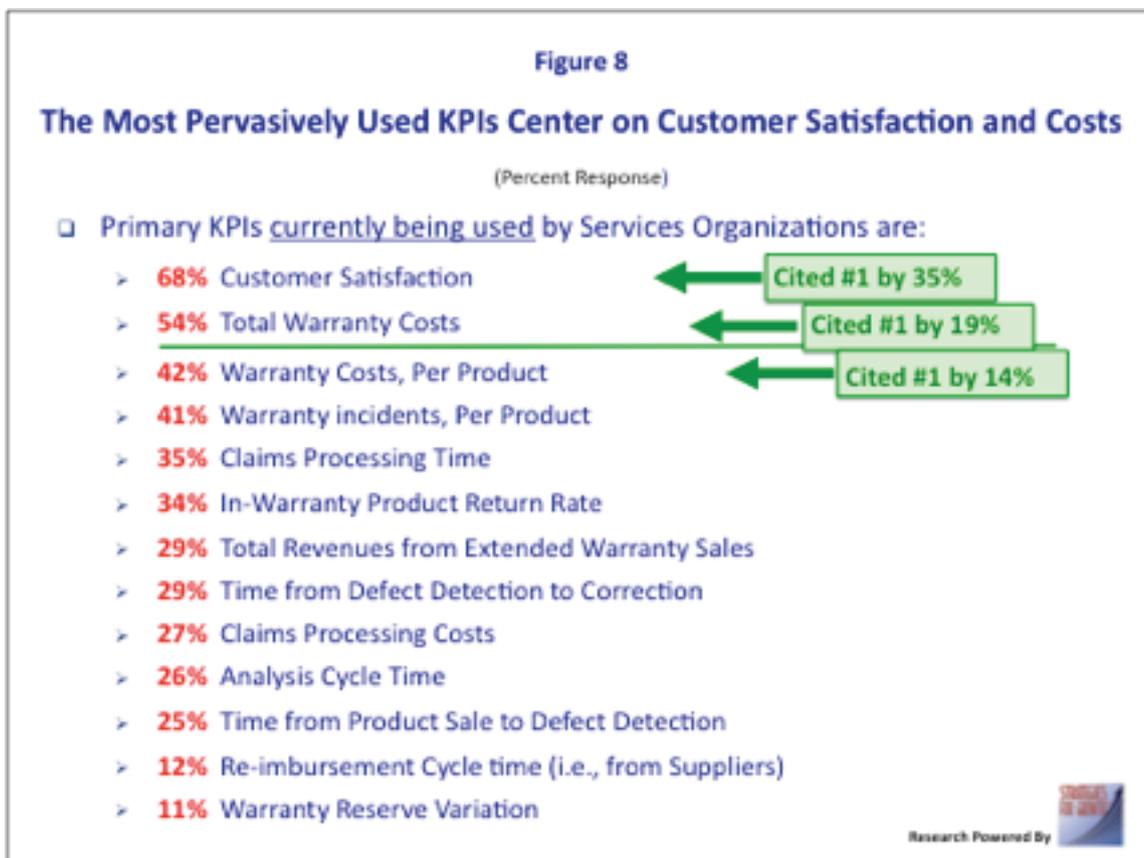
Other key uses of data/information collected from warranty events, as cited by at least one-quarter of respondents, include:

- > 30% Making supplier selections
- > 27% For inclusion in regular corporate financial performance reporting
- > 25% Making purchasing decisions
- > 25% Making changes to product documentation

Once again, the uses of the data/information collected from warranty events are typically targeted for a variety of purposes, ranging from making supplier and purchasing decisions, effecting change and sharing with other areas in the enterprise.

□ The survey findings reveal that there are basically three service performance metrics, or KPIs, presently being used by a majority (or near-majority) of the respondent organizations that participated in SFGSM's 2017 Warranty Chain Management Benchmark Survey. They include (Figure 8):

- > 68% Customer Satisfaction (cited by 35% as the number one KPI)
- > 54% Total Warranty Costs (cited by 19% as the number one KPI)
- > 42% Warranty Costs, per Product (cited by 14% as the number one KPI)



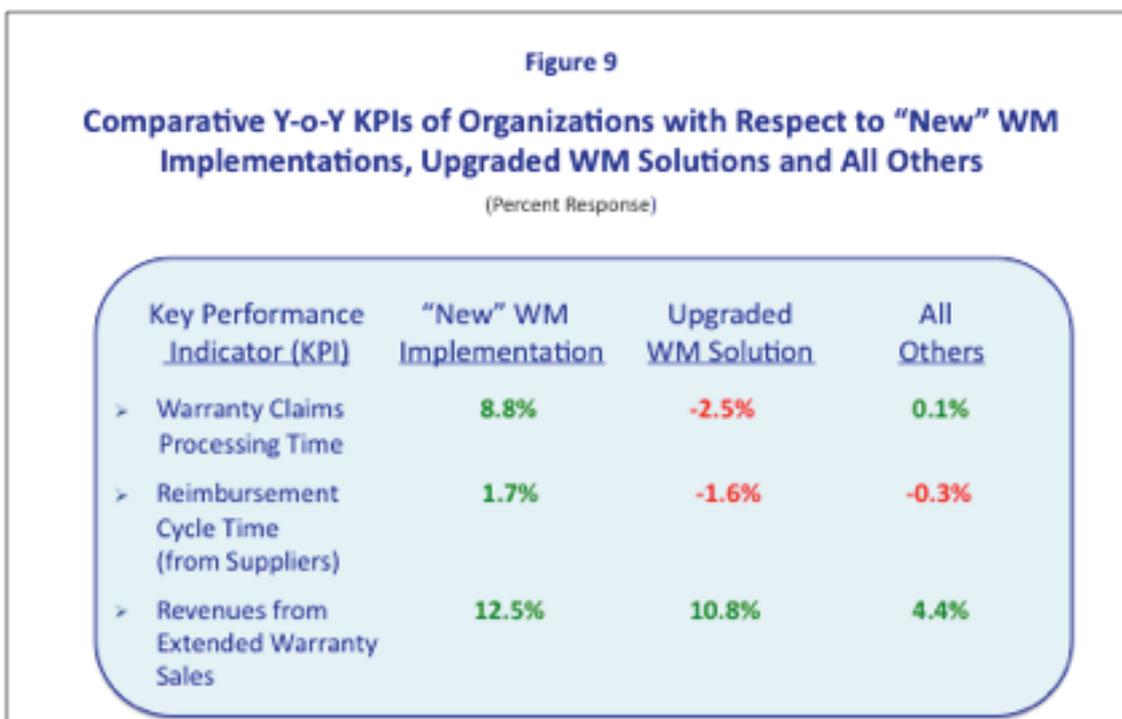
However, there are also an additional eight KPIs that are used by at least one-quarter or more of respondents. These include:

- > 41% Warranty Incidents, Per Product
- > 35% Claims Processing Time
- > 34% In-Warranty Product Return Rate
- > 29% Total Revenues from Extended Warranty Sales

- > 29% Time from Defect Detection to Correction
- > 27% Claims Processing Costs
- > 26% Analysis Cycle Time
- > 25% Time from Product Sale to Defect Detection

Thus, from the survey data, the most commonly used warranty management KPIs tend to focus primarily on customer satisfaction and the costs of doing business. Perhaps the most revealing findings from the overall survey results are the significant performance improvements that are being realized by those organizations that have acquired a “new” warranty management solution within the past three years – and to a somewhat lesser extent among those who have merely upgraded their existing warranty management solutions during that same period. All other organizations represented in the survey fall far behind these two leading categories with respect to performance improvements. Clearly, however, the greatest improvements have been experienced by those that have implemented a “new” warranty management solution.

For example, all three categories (i.e., “New” Implementations, Upgrades and All Others) have experienced improvements in revenues generated from the sale of extended warranties, with “New” Implementations leading the pack at a 12.5% improvement, followed closely by Upgrades at 10.8%. All Others trail far behind at roughly 4.4% improvement for this KPI (Figure 9).





However, it is in the category of warranty claims processing time where “New” Implementations clearly outshines the other two categories, realizing an 8.8% improvement, compared with a decline of 2.5% for Upgrades, and a relatively flat increase of only 0.1% for All Others. With respect to reimbursement cycle time (from suppliers), none of the three categories have experienced significant improvements – with only “New” Implementations showing some improvement at 1.7%, while both Upgrades and All Others reflect modest declines of 1.6% and 0.1%, respectively. Based on the results of SFGSM’s 2017 Warranty Chain Management Benchmark Survey, the key takeaways are:

- > Roughly half (49%) of the warranty management segment have either implemented or upgraded their warranty management solutions in the past three years or less
- > More than three-quarters (77%) of current warranty management processes are at least partially automated
- > Over the next 12 months, annual warranty management budgets are expected to increase, with more than twice as many organizations planning increases over decreases
- > Organizations with “new” warranty management implementations have realized significantly greater performance improvements than all other categories with respect to warranty claims processing time and supplier/vendor recovery (as a percent of total warranty expense)
- > Warranty management organizations are being driven, first, by Customer-focused factors; second, by Product Quality-focused factors; and third, by Cost/Revenue-focused factors
- > The most significant challenges currently faced by warranty services managers are identifying the root causes of product failures, followed by product quality issues and claims processing time and accuracy
- > Currently, as well as in the next 12 months, warranty services managers will be focusing primarily on developing and/or improving their KPIs and warranty analytic programs, fostering a closer working collaboration between product design and service, and instituting/enforcing process workflow improvements for supplier cost recovery
- > Nearly half (46%) of organizations are currently integrating warranty management with all other services functions, and just as many already have an end-to-end workflow process in place to handle claims and returns (46%); however, this means that more than half presently do not have these capabilities in place

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- > The top uses of data/information collected from warranty events are basically to improve processes (i.e., field service, depot repair, parts returns, etc.) and effect changes (i.e., product design, manufacturing, etc.)
 - > Customer satisfaction and warranty management-related costs are the top two categories of KPIs used by warranty services management organizations, followed by warranty costs, per product

Historically, the primary factors cited as driving the warranty management community to improve its operational efficiencies and overall performance have essentially been customer-driven; that is, with a focus primarily on meeting – and even exceeding – customer expectations for returns processing, claims processing time, replacement units and the like. However, the economic bust of the past decade changed the way warranty management organizations think by placing increased emphasis on warranty costs-related issues. Still, the number one factor, overall, is on meeting their obligations with respect to keeping their customers satisfied.

In 2017, and beyond, the warranty management focus has once again shifted back to the customer in terms of meeting (and exceeding) customer demands and expectations – or “back to the basics”.

However, how are warranty management organizations planning to accomplish this?

Mainly by automating existing manual or partially automated processes, developing and/or improving the KPIs they use to measure their improving performance over time, fostering closer working collaboration between product design and service, instituting/enforcing process workflow improvements for supplier recovery, streamlining overall operations, streamlining parts return process to improve overall efficiency, restructuring for improved warranty management oversight and accountability, and purchasing and/or upgrading to an automated warranty chain management solution.

The gains made in performance improvement among those organizations that have implemented a “new” warranty management solution in the past three years or less have been substantial, effectively making the case that the most effective means for driving performance improvements is via the automation and integration of all key warranty management functions facilitated through the implementation of a state-of-the-art, Cloud-based, warranty management solution.²

About the Author

Bill Pollock is President & Principal Consulting Analyst at Strategies For GrowthSM (SFGSM), the independent research analyst and services consulting firm he founded in 1992. Previously, Bill served as President & Chief Research Officer (CRO) at The Service Council; Vice President, Principal Analyst, heading up Aberdeen Group's Service Management Practice; and Managing Analyst, Services Industry at Gartner. In 2015/2016, Bill was named "One of the Twenty Most Influential People in Field Service" by Field Service News (UK); one of Capterra's "20 Excellent Field Service Twitter Accounts"; and one of Coresystems' "Top 10 Field Service Influencers to Follow". He writes monthly features for Field Service News and Field Service Digital, and is a regular contributor to Field Technologies. Bill may be reached at +(610) 399-9717, or via email at wkp@s4growth.com. Bill's blog is accessible @PollockOnService and via Twitter @SFGOnService.

About Tavant Technologies

Headquartered in Santa Clara, California, Tavant Technologies is a specialized software solutions & services provider that leverages its expertise to provide impactful results to its customers across North America, Europe, and Asia-Pacific. Having leveraged its unrivalled capabilities and domain insights to create game changing results for leading businesses across chosen industry micro-verticals, Tavant Technologies is known for long-lasting customer relationships, engineering excellence and passionate employees. Founded in 2000, the Company employs over 1,000 people and has been recognized as one of the Top 25 Best Companies to Work For.



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