How to Develop a Closed Loop Warranty Management Ecosystem to Boost Revenues?

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More than a decade ago, an auto major quadrupled its sales because it offered affordable prices and a 10-year, 100,000 miles warranty.

Warranty still continues to rule the roost in building brand reliability. However, with customer expectations at an all-time high, and challenges in the business environment multiplying, the conventional warranty management approach fails to address all complexities existent in the warranty ecosystem.

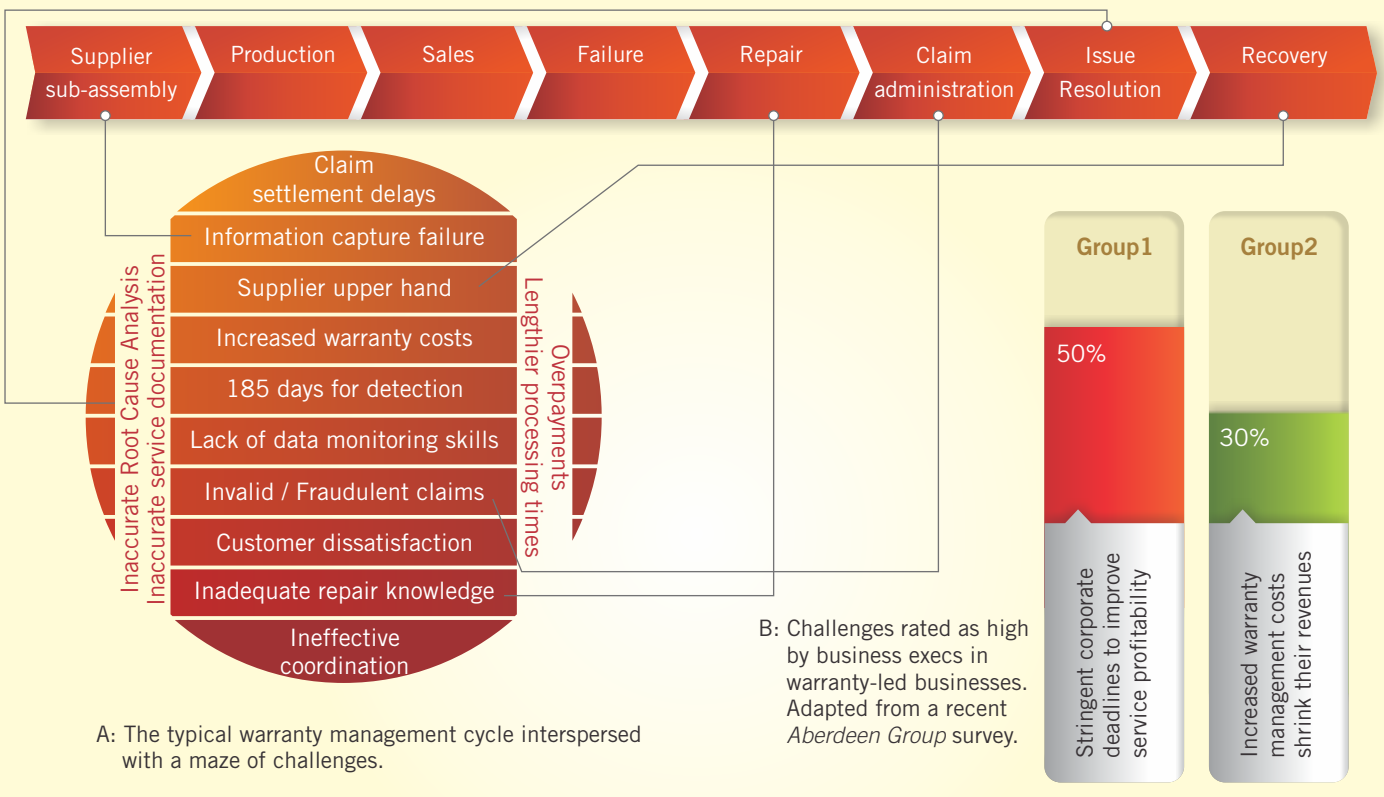
In the lifecycle of managing warranties, businesses have to contend with the pressures of increasing service profitability and reducing customer costs. At the same time, they need to differentiate genuine from fraudulent warranty claims, reduce delays in claim settlements, and ensure customer satisfaction.

The conventional approach to warranty management is flawed, as it fails to consider warranty as a critical component of an overall corporate strategy and a competitive differentiator. The traditional approach is rather myopic in nature and addresses either the cost element or the quality element, one at a time.

Moving beyond the conventional approach to the 'closed loop' warranty management system helps not just in boosting revenues but also helps gain a competitive edge and improve regulatory compliance, among other things. This whitepaper tells you how.

Warranty Management – Integral to Brand Reliability, but Seeped in Challenges

There are multiple vulnerable points in the warranty cycle, where a minor disruption can snowball into a major bottleneck in the ecosystem



A: The typical warranty management cycle interspersed with a maze of challenges.

B: Challenges rated as high by business execs in warranty-led businesses. Adapted from a recent *Aberdeen Group* survey.

Fig. 1: Challenges in the warranty life cycle.

A: The typical maze of challenges that impact multiple levels of the warranty life cycle.

B: In a recently concluded survey by the *Aberdeen Group*, close to 50 percent of respondents reported 'working under stringent corporate deadlines to improve service profitability' as their primary challenge. 30 percent of survey-takers felt that 'increased warranty management costs shrink their revenues considerably'.

Typical disruptions in the warranty management chain:

- Failure to capture information at the supplier sub-assembly make it difficult to identify and ship the correct replacement parts to the service center. The lack of this information makes it difficult to draw up service documents accurately and comprehensively.
- Lack of repair knowledge often prevents an organization from resolving an issue to the satisfaction of the customer who is then compelled to raise a warranty claim.
- Lack of data monitoring and administration skills increase the time needed to sift through invalid and fraudulent claims. This not just increases warranty costs by increasing processing times but also delays the resolution of valid claims and can also result in overpayment.
- Failure to collect the requisite data to carry out an accurate Root Cause Analysis (RCA) prevents an organization from resolving a warranty issue satisfactorily.
- Lack of adequate data regarding the nature of the warranty issue prevents an organization from gaining an upper hand when negotiating with suppliers to recover the warranty.
- Ineffective coordination among various departments in the warranty chain, like Customer Service, Quality Assurance, and Procurement, prevents organizations from resolving warranty issues speedily. On an average it takes about 185 days to detect something is wrong or to define what is wrong!

and increase warranty costs, as shown in fig. 1.

Consider this: While repeat failures could be attributed to a product quality problem they could also arise from a repair center issue. Spotting the exact problem is usually time-consuming and resource-intensive. It is estimated that on an average it takes about 185 days to detect something is wrong or to define what is wrong!

The warranty management life cycle becomes all the more complex because new products with complicated features are launched regularly and the existing ones quickly become obsolete. Complexities also arise if the limited warranty period lapses or when businesses are required to provide extended warranty services and therefore get into service contract agreements with their clients.

The inherent complexities in the warranty lifecycle increases the chances of disruptions, thereby escalating warranty expenses. Furthermore, when organizations fail to satisfactorily resolve warranty issues, customer loyalty diminishes and brand goodwill suffers. These, in turn, lead to a decrease in sales and a dip in revenues.

According to findings reported in the *Warranty Week*, organizations end up paying tens of billions of dollars every year to cover warranty management costs. For some organizations their warranty costs represent 2 percent or more of their annual revenues!

Warranty-led businesses, dealing with the dual pressures of streamlining the warranty management process and of optimizing investment under this head often adopt conventional warranty management solutions, which in most cases, are incapable of meeting the strategic objectives of the warranty organization.

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Conventional Warranty Management – Integral to Brand Reliability, but Seeped in Challenges

Conventional warranty management solutions — used widely by many organizations — follow one or both of the following two courses of action, shown in fig. 2 to reduce warranty costs.

Though aimed at reducing warranty costs, the two conventional methods are flawed.
The first method is reactionary and regards warranty management solely as a cost element.

The second method focuses only on improving product quality.

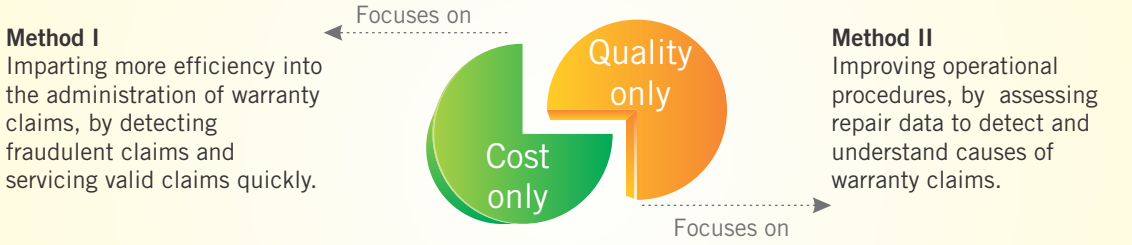

Fig. 2: Conventional warranty management solutions are flawed as they have a unidimensional approach.

Both approaches are inadequate because they fail to consider warranty as a critical component of an overall corporate strategy and a competitive differentiator. That is, both these approaches fail to recognize the importance of warranty management in all stages of the product life cycle. This oversight in turn, fails to bring together dispersed business processes, keeps departments in functional silos, and hampers accurate decision-making by not providing key decision-makers with a holistic view of what is happening throughout the product life cycle.

It is imperative that businesses now look beyond these ineffective warranty management approaches and embrace one that overcomes the shortcomings of the conventional approach.

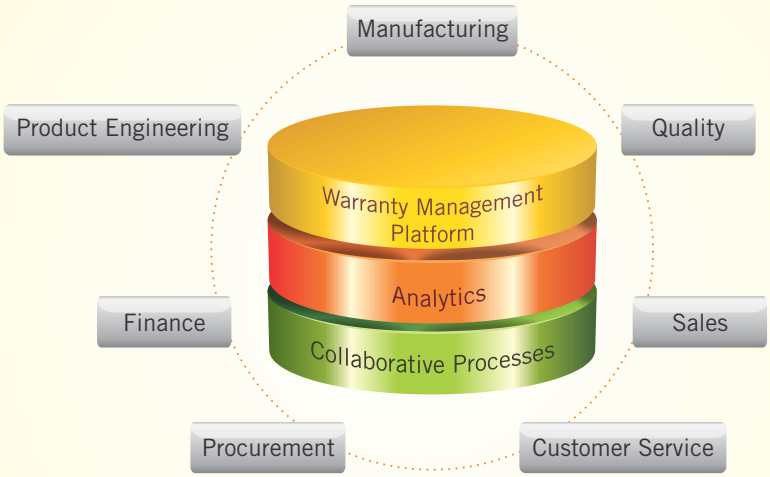

Fig. 3: A representative 'closed loop' warranty management system

Moving Beyond the Conventional Route to the 'Closed Loop' Warranty Management System

Deficiencies in the warranty management cycle can be effectively countered only if the warranty data is better managed and more efficiently transmitted across various business processes and departments. What's also critical is that the issues be resolved at every stage of the product life cycle for better and wider business impact.

A centrally-located and administered or **"closed loop"** warranty management system is an optimal solution that can solve all existing challenges and complexities in the warranty management cycle. A closed loop system can capture all relevant bits of data, analyze it, and transfer the information between departments to improve product quality and provide better field service. When the various processes in the warranty chain are integrated and streamlined, warranty costs come down, and there is greater end-customer satisfaction.

The three key components of a closed loop warranty management system are:

- Technology
- Process / Framework that includes the models and mathematical tools and techniques to carry out the respective processes involving this component
- Analytics

The technology platform of such a warranty management system is powerful enough to control various disparate business processes like workflow and recovery management, claims administration, electronic invoicing, and customer service. Technology enablement makes the interaction of the various components of a closed loop warranty management system possible and thereby optimizes processes like service and repair, administration of claims, warranty recovery, and resolution of issues.

Data is generated from the processes and / or are provided by functions, like Finance and Sales, and stakeholders, like suppliers, repair dealers, and internal users are recorded in databases. These humongous chunks of data are then analyzed using mathematical tools and models. This helps organizations generate early warning systems, carry out warranty cost variation and claims handling efficiency analyses, prepare failure control charts, and perform diagnostic procedures to determine root causes of issues and the reasons behind repeat failures.

These advanced analytical models can help an organization optimize dealer and supplier management procedures, lay down stringent risk-based business rules based on empirical data, and carry out rule-based adjudicator assignment and charge allocation tasks. The mathematical tools and models help spot patterns and trends in the data and this, in turn, facilitates improved understanding of how processes work and where they can be streamlined. These insights help organizations benchmark warranty processes and enhance collaborative efforts between functions to reduce wastage.

A closed loop warranty management system performs the following functions:

- Automates the processes in the warranty chain to minimize human intervention
- Integrates all the processes and departments in the chain
- Provides at-a-glance visibility of the entire warranty chain
- Detects ineffective processes and non-value adding activities in the chain
- Eliminates ineffective and wasteful processes
- Provides data on the key performance indicators
- Detects fraudulent warranty claims
- Detects other issues, anomalies, or disruptions in the chain

Fig. 4 demonstrates how the various components of a closed loop warranty management system interact to positively impact business processes across an organization.

	Service & Repair	Claims Administration	Warranty Recovery	Issue Resolution
Analytics	▪ Dealer Analytics ▪ Reverse Logistics ▪ Early Warning System ▪ Data Mining from Notes	▪ Warranty Cost Variation Analysis ▪ Claims Handling Efficiency Analysis	▪ Sampling Plan Optimization ▪ NTF Analysis ▪ Data for Negotiations	▪ Root Cause Analysis ▪ Repeat Failure Analysis ▪ Failure Control Chart
Process/ Framework	▪ Risk-Based Business Rules ▪ Dealer Management ▪ Standardized Taxonomy	▪ Rule-Based Adjudicator Assignment ▪ Issue Resolution Audit Data ▪ Enhanced Validation of Claims	▪ Rule-Based Charge Allocation ▪ Supplier Management	
	Warranty Process Benchmarking Enhanced Collaboration			
Technology	▪ Dealer Portal	▪ Workflow Management	▪ Supplier Portal	

Fig. 4: Interaction between the components of a Closed Loop Warranty Management System at various organizational levels to improve multiple business processes.

Recommendations for Implementing a Closed Loop Warranty Management System

For a successful implementation of the closed loop model, organizations should look at three important aspects:

1. **Adopt a step-wise solution approach**
   a. Focus on the low hanging fruits first
   b. Clarify requirements before freezing technology solution
2. **Choose the right partner**
   a. Look for technology, people and process expertise
   b. Flexible engagement and commercial models
3. **Target incremental benefits:** A closed loop warranty management system starts showing positive results within a month of implementing it in an organization. These results are sustainable, as can be gauged by the fact that new and longer-term benefits continue to show up even three months after implementation, as shown in figure 5.

	Within 30 Days	Within 90 Days	After 90 Days
Tangible Benefits	▪ Increased automation ▪ Comprehensive electronic invoicing	▪ Automated invoice processing ▪ Rule-based claim filtering	▪ Increased supplier recovery ▪ Reduced process costs ▪ Reduced claims processing
Intangible Benefits		▪ Increased and improved collaboration	▪ Strengthened position when negotiating with suppliers

Fig. 5: Organizational benefits of implementing a closed loop warranty management system.

Conclusion

With increased industrialization and globalization, organizations will face stiffer competition in the near future. On the other hand, end customers will increasingly demand improved products and more responsive after-sales service. In the face of such challenges, manufacturers can only hope to stay ahead of competition by continuously innovating and delivering stellar customer service. Of course, they will also need to curb their expenses by streamlining processes and reducing wastage of efforts. Improving the warranty performance presents a critical opportunity for businesses to reduce operational costs and improve product reliability.

A closed loop warranty management system integrates disparate but critical business processes and dissolves functional silos. By integrating processes and functions, the system helps capture downstream product data and transfer it to the decision-makers upstream. This, in turn, enables the latter to continuously initiate sustainable operational improvement measures that strive to fulfill core business objectives like reducing expenses, increasing after-sales revenues, improving end-customer satisfaction, and boosting sales. Warranty management can thus become that critical business process that imparts the all-important competitive edge to a business.

It is time organizations stop treating warranty management as a reactionary measure and instead adopt a comprehensive approach that transforms warranty into a strategic and competitive business advantage.

About WNS

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