Building a Best Practices Warranty Management Program for 2016 – and Beyond

How Best Practices Organizations Are Positioning Themselves to Drive Revenues, Reduce Costs and Compete More Effectively

Written by:

Bill Pollock
President & Principal Consulting Analyst
Strategies For GrowthSM
Westtown, Pennsylvania

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A. Putting Warranty Management Metrics in Perspective

Each year, Strategies For Growth℠ (SFG℠) conducts a series of Benchmark Surveys among its outreach community of more than 40,000 global services professionals. Total responses for the updated 2015 Warranty Chain Management Benchmark Survey, conducted over a six-month period ending in Q3 2015, are in excess of 225.

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

- **56%** Desire to improve customer retention
- **50%** Post-sale customer satisfaction issues
- **37%** Customer demand for improved warranty management services
- **27%** Product defect-related costs
- **24%** Mandate to improve service profitability
- **21%** Mandate to drive increased service revenues

However, in order to effectively execute on each of these drivers – and strive to attain Best Practices – respondents then cite the following as the most important strategic actions already in place at their respective organizations:

- **52%** Develop / improve metrics, or KPIs, for advanced warranty chain analytics
- **39%** Streamline parts return process to improve overall efficiency
- **35%** Improve warranty management-related planning and forecasting activities
- **32%** Restructure for improved Warranty Management oversight & accountability
- **31%** Foster a closer working collaboration between product design & service

How well an organization steps up to each of these drivers by taking the most appropriate – and effective – strategic actions will ultimately determine its prospects for successfully attaining a desired Best Practices position in the global warranty management services marketplace.

Based on the updated results of the original SFG℠ benchmark survey, this report provides additional insight into each of these and other related areas that may be impacting your organization’s ability to attain Best Practices with respect to its overall warranty chain management processes – and it all starts with the need to have a full understanding of the numerous processes, policies and procedures used to run your warranty management operations, coupled with the development of a Key Performance Indicator (KPI) program that can be used to measure your success all along the way.

For the purposes of this report, we define Best Practices Warranty Management organizations as those that have attained both 90% or higher customer satisfaction, and reflect average warranty claims processing times of four days or less. Accordingly, approximately 11%, or 25, of the total respondents are classified as Best Practices.
The survey findings reveal that there are basically three Key Performance Indicators, or KPIs, presently While these KPIs may represent the most common ones typically used by Warranty Management organizations, it is important to remember that since each organization has its own unique way of operating, it will require its own custom set of KPIs to being used by a majority (i.e., 50% or more) of Warranty Management organizations – both among the total survey respondent base, as well as among those classified as Best Practices. They include:

- Customer Satisfaction (88% for Best Practices; 83% overall)
- Total Warranty Costs (75% for Best Practices; 73% overall)
- Warranty Costs, per Product (58% for Best Practices; 53% overall)

However, a majority of Best Practices organizations also rely on three additional KPIs, as a matter of course, including:

- Analysis Cycle Time (58% for Best Practices; 53% overall)
- Claims Processing Time (54% for Best Practices; 46% overall)
- Warranty Incidents, per Product (50% for Best Practices; 42% overall)

In each case, Best Practices organizations are more likely to measure and monitor these six Warranty Management KPIs than all others, as reflected in Figure 1.

**Primary KPIs Currently Used by Best Practices Warranty Organizations**

Primary KPIs currently being used by Best Practices Warranty Management Organizations are:

- 88% Customer Satisfaction
- 75% Total Warranty Costs
- 58% Warranty Costs, Per Product
- 58% Analysis Cycle Time
- 54% Claims Processing Time
- 50% Warranty Incidents, Per Product
- 38% Claims Processing Costs
- 33% In-Warranty Product Return Rate
- 33% Time from Defect Detection to Correction
- 29% Total Revenues from Extended Warranty Sales
- 25% Warranty Reserve Variation
- 17% Re-imbursement Cycle time (i.e., from Suppliers)
- 08% Time from Product Sale to Defect Detection
But there are several other KPIs that this esteemed group of organizations regularly track, that also help to differentiate them from all others.

The survey results reveal that there are another five KPIs for which at least one-quarter or more of the Best Practices organizations also measure. These include:

- **38%** Claims Processing Costs
- **33%** In-Warranty Product Return Rate
- **33%** Time from Defect Detection to Correction
- **29%** Total Revenues from Extended Warranty Sales
- **25%** Warranty Reserve Variation

Still other KPIs, such as Re-imbursement Cycle Time (i.e., from Suppliers) are measured by one-in-six Best Practices organizations; and Time from Product Sale to Defect Detection is measured by one-in-12. Thus, from the survey data, the most commonly used Warranty Management KPIs among Best Practices organizations tend to focus; first, on customer satisfaction; second, on warranty cost-related issues; and third, on time- and incident-related issues.

However, the key to success for most warranty management organizations – and the other organizations within the enterprise with which they interact – is not so much related specifically to

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**Figure 2**

*Top Uses of Collected WM Data Are to Improve Processes and Effect Change*

- To Improve Field Service Processes: 64
- To Make Product Design Changes: 56
- To Improve Equipment / Part Return Processes: 52
- To Make Manufacturing Changes: 32
- To Make Purchasing Decisions: 32
what data they are collecting, but, rather, how they use that data to improve their overall performance, as illustrated in Figure 2.

For the Best Practices warranty management community, the main uses of the data they collect are primarily related to improving services processes (64%), making product design changes (56%), and improving equipment/parts return processes (52%). These are the top three uses cited by a majority of Best Practices respondents.

However, an additional one-third of Best Practices organizations also use the collected data for making manufacturing changes (32%) and making purchase decisions (32%). As such, most of these cited uses are related to either improving existing processes and/or effecting change in the way products are designed and purchases made.

Other key uses of data/information collected from warranty events, as cited by between one-quarter and one-third of the Best Practices respondents, include:

- 28% Improving depot repair processes
- 20% Making supplier selection
- 20% For inclusion in regular corporate financial performance reporting
- 16% Making changes to product documentation

Once again, the uses of the data/information collected from warranty events are typically tied to a variety of purposes, ranging from improving service management and related processes, to effecting change, and for sharing with other areas within the enterprise.

But the real proof of the pudding is in how well Best Practices organizations actually perform with respect to these primary KPIs – and the results are just about as good as one would expect! For example, Best Practices Warranty Management organizations average 95% Customer Satisfaction, compared to only 85% among all others. In terms of average Warranty Claims Processing Times, Best Practices organizations shave more than three days off of all others by reporting an average of 2.22 days, compared to 5.57 days, overall.

So … the question arises: why do Best Practices Warranty Management organizations perform at so much higher levels than all others? There are a number of reasons, ranging from the emphasis they place on building an effective Warranty Management KPI program; to the fact that they regularly measure and monitor more KPIs than all others, use the collected data for a greater number of purposes, and end up performing 10 percentages points higher in customer satisfaction than their counterparts – all while cutting down the number of days required to process warranty claims by more than half! As a result, these findings strongly suggest that KPIs do, in fact, have an important role in differentiating Best Practices organizations from all others!
In 2016 – and beyond, the leading Warranty Management organizations are likely to continue to widen the gap between themselves and all others, mainly by automating existing manual processes, streamlining overall warranty operations, improving planning and forecasting capabilities, restructuring the way they operate, and formalizing and/or improving the KPIs they use to monitor their improving performance over time.

B. Building the Most Effective Warranty Management KPI Program

The use of warranty-specific metrics, or KPIs, has been around for as long as many of us have been working in the warranty sector. However, each of our organizations may have a different understanding of their importance and use. In fact, the first hurdle for many warranty managers is gaining the proper understanding of exactly what KPIs are, and what they can do to help them run their warranty operations more efficiently.

Basically, KPIs are tools that may be used by an organization to define, measure, monitor, and track its performance over time toward the attainment of its stated organizational goals. For example, the Warranty Management industry may evaluate itself on the basis of KPIs such as warranty costs/per product, analysis cycle time, claims processing time, warranty incidents/per product, and others; while other related segments, such as field service, may look more to KPIs that measure line items such as Mean Time to Repair (MTTR), First-Time Fix Rates, service revenues as a percent of total company revenues, etc.

However, regardless of which metrics your organization adopts, the following factors should always be taken into account: The KPIs you measure must …

- Reflect, and relate directly to, the organization's goals
- Be quantitative and quantifiable
- Be linked directly to the measurement of the organization's success

First and foremost, the KPIs must relate directly to the organization's stated goals. These are the metrics against which the organization will be driven to perform in order to measure its success over time. For example, if your organization's primary goals are to have the customer's claim processed as quickly as possible, complete the repair or replacement within the contracted time, and leave the customer completely satisfied, then you will probably be looking at KPIs reflecting claiming processing time, time from defect detection to correction, and various other customer satisfaction and time-related metrics and indices.

However, if your goals are more focused on reducing total warranty costs and improving the re-imbursement cycle time, then you will probably be looking more at KPIs addressing warranty costs
per product, supplier compliance, and other related metrics. In most cases, your organization, as a whole, will probably be tracking all of these metrics anyway, although some departments may focus on one set of KPIs, while others may focus in different areas.

The KPIs you use must also be quantitative and quantifiable. The standard rule of thumb is "if you can’t measure it, you can’t manage it." What this means is that it may be extremely difficult to measure your success if your targets are not quantitative in nature. For example, if your goal is to improve customer satisfaction from "good" to "very good", it may be difficult to objectively distinguish one level from the other.

However, if your goal is to improve an existing customer satisfaction rating of 85% to 88%, you will know in absolute terms whether or not you have met your goal if at the end of the period you have improved to either 87% (i.e., a point below) or 89% (i.e., a point above). In the first case, you have not met your goal; but, in the second case, you have. Only by quantifying the KPI used to measure performance in this case, are you able to determine whether you have succeeded or not.

Finally, the KPIs must be linked directly to the specific measures of the organization's success. Simply tracking data over time, and reporting it back to management, is not useful if the data itself is not meaningful to the measure of success. For example, using KPIs to track employee attendance may be of use to your Human Resources department, but may not be directly relevant to the measure of your overall warranty operations performance. While these KPIs may be important to HR, there are far more alternatives that you should be measuring instead to gauge your warranty operations performance (e.g., analysis cycle time, customer satisfaction, etc.).

Key Performance Indicators (KPIs) are quantifiable metrics, or measurements, that relate to specific success attributes that reflect the organization's performance. As such, the selection of the specific KPIs to be used may differ widely from one organization to another – or even between and among departments within the same organization. In order for a KPI to have maximum value, it must be clearly defined, quantifiable, and relatively easy to measure. Metrics that are vague in definition; qualitative or subjective in nature; and next to impossible to collect, interpret and analyze will not serve as a good basis for a KPI.

KPIs should also be directly linked to the critical factors that drive the performance of the organization. If the metric is not directly linked to a critical organization success factor, it will probably not be worth the resources and dollar expenditures to collect and process. In the world of KPIs, there is a big difference between "need to know" and "nice to know". In the former, the resources required to collect, analyze, interpret, and distribute the KPI information will almost certainly be worth the effort. This "need to know" data and information is what management will ultimately use to make its decisions for moving forward. However, "nice to know" data and information is really not worth the expense, and will typically use up many of the scarce resources that might otherwise have been used to generate the more important "need to know" data and information.
Furthermore, the number of KPIs used to measure an organization’s performance should typically be kept to a minimum. The average rule of thumb is roughly 3 to 4 KPIs per department, and another 3 to 4 KPIs for the organization as a whole. This does not necessarily mean to say that a single department or organization cannot have more or less KPIs at their disposal; however, the more KPIs that are in use, the greater the chance that some may end up being in conflict with one another. For example, a KPI that measures revenues may be in conflict with a KPI that measures profitability.

If the organization’s primary strategic goal is to increase revenues, then the former will represent the more important KPI to measure. However, if the primary strategic goal is to maximize profitability, then the more important KPI will be the latter. Ultimately, it will be up to senior management to choose the measure that is most important, and the selection of the appropriate KPI will follow.

Once an organization’s KPIs are defined, and the required data and information are collected, processed, and distributed to the appropriate parties, they may be used in many ways as performance management tools. Warranty managers can use them to measure and track the degree to which they are meeting (or not meeting) their monthly, quarterly, or annual performance goals and targets. The examination of period-to-period trends for any given KPI will also lead to the likely identification of problem areas, areas requiring improvement, or areas reflecting significantly high levels of good – or bad – performance. From these trends, decisions can be made to review, assess and/or modify specific areas that require attention.

KPIs can also be used as either internal or external promotional tools. For example, day-to-day, month-to-month, or year-to-year performance trends can be measured, tracked, and presented internally at strategic planning sessions, quarterly meetings, or other company events. KPIs that reflect internal successes with respect to performance may also be used for external promotional purposes, such as including the findings in customer newsletters, market reports, or as promotional pieces on the company's Website.

Every organization needs to establish its own unique KPIs to measure, monitor, and track its performance over time. However, regardless of which KPIs are ultimately used, they must be realistic; quantifiable; linked directly to the organization’s stated goals and targets; and, preferably, reflective of the "need to know" mentality that drives the business. There must also be a formal process for the ongoing collection of key performance data and information to support the overall KPI process. Also, depending on where you are positioned within your company, your need for KPIs may be very different than those of your counterparts in other departments or service territories. In order to make sure that you are using the most appropriate KPIs, we recommend that you begin, first, by focusing on the most basic, or standard, KPIs (e.g., such as customer satisfaction; total warranty costs; warranty costs, per product; etc.), and then develop more sophisticated metrics over time that will allow you to hone in on the most critical areas requiring monitoring and management.
Many companies are also in various stages of developing or implementing Warranty Management (WM), Customer Relationship Management (CRM) or Enterprise Resource Planning (ERP) systems within the organization. In these situations, it is typically far better to build in the required KPI data collection processes before the system is implemented in order to save time, money – and anxiety – before the systems are set in stone.

In any case, before embarking on an KPI development initiative, it will be important to set the stage properly by first:

- Agreeing on the appropriate metrics to measure as Key Performance Indicators (KPIs) (i.e., "need to know" vs. "nice to know")
- Setting up all the measuring, monitoring, and tracking systems in advance to support the KPI initiative
- Integrating KPIs with companywide WM, CRM or ERP systems wherever possible
- Establishing a formal process for managing the ongoing collection of key performance data and information on a regular, periodic and automated basis

**Figure 3**

**Representative Warranty Management KPIs, by Type**

<table>
<thead>
<tr>
<th>Area</th>
<th>Representative KPIs/Metrics to be Tracked</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer-related</td>
<td>• Customer Satisfaction</td>
</tr>
<tr>
<td>Cost-related</td>
<td>• Total Warranty Costs</td>
</tr>
<tr>
<td></td>
<td>• Warranty Costs, Per Product</td>
</tr>
<tr>
<td></td>
<td>• Claims Processing Costs</td>
</tr>
<tr>
<td>Time-related</td>
<td>• Analysis Cycle Time</td>
</tr>
<tr>
<td></td>
<td>• Claims Processing Time</td>
</tr>
<tr>
<td></td>
<td>• Re-Imbursement Cycle Time (from Suppliers)</td>
</tr>
<tr>
<td></td>
<td>• Time from Product Sale to Defect Detection</td>
</tr>
<tr>
<td></td>
<td>• Time from Defect Detection to Correction</td>
</tr>
<tr>
<td>Revenue-related</td>
<td>• Total Revenues from Extended Warranty Sales</td>
</tr>
<tr>
<td>Other</td>
<td>• Warranty Incidents, Per Product</td>
</tr>
<tr>
<td></td>
<td>• In-Warranty Product Return Rate</td>
</tr>
<tr>
<td></td>
<td>• Warranty Reserve Variation</td>
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</tbody>
</table>
While these KPIs may represent the most common ones typically used by Warranty Management organizations, it is important to remember that since each organization has its own unique way of operating, it will require its own custom set of KPIs to measure. Another key rule of thumb is that you will most likely want to track those KPIs relating to areas where the organization is currently not performing well – at least until such time as it begins to meet its desired levels of performance on a recurring basis.

It is also quite revealing to compare how different organizations handle, monitor, manage and forecast their warranty-related activities. As there is no standard set of rules regarding which KPIs will work best for one organization vs. another, individual organizations may take quite a different stance with respect to KPI selection based on key influencing factors such as markets and geographies being served, corporate culture, company mission and product coverage – as well as overall management philosophy and requisite skills.

Consider it from the perspective of the airline pilot, who regularly deals with a multitude of cockpit dashboard indicators (i.e., KPIs) including numerous dials, gauges, LED readouts and monitors. Each and every one of them is of high importance to both the pilot and the control tower. However, some are more important than others – and the level of importance may change suddenly depending on the specific conditions that the pilot may be facing at any given time, such as:

- Current and forecasted weather conditions
- Taking off, cruising or landing sequences
- How heavy a load the plane is carrying?
- Current and projected fuel considerations
- Prospects for on-time destination arrival
- Ability to keep passengers comfortable and content (i.e., especially under turbulent conditions, or during delays, etc.)

Likewise, it may also be the case with respect to your warranty management operations. And, depending on the specifics of what the organization is dealing with – either at the moment, or over the long haul – it will need to focus on a custom set of specific KPIs (or, in the airline pilot example, gauges) to measure its performance over time. Some of the main considerations that warranty managers may face at any given moment might include such areas as:

- Product recalls
- New product launches
- Discontinuance of older, end-of-life products
- Changes in the customer base (e.g., due to either intrinsic growth, mergers or acquisitions, consolidations, strategic partnerships, or any combination thereof)
• Increases in non-warranty activity
• Changes in customer support staff

The good news, however, is that if properly executed, superior warranty management in any of these cases will:

1. Keep your good (i.e., important, profitable, repeat, etc.) customers satisfied; and
2. Reduce operating costs (i.e., that will drop immediately to the bottom line)

Most of the major challenges – and mistakes – that the industry has seen happen much too frequently in recent years could easily have been prevented via only a slight improvement in processes, policies and/or management. And, again, these improvements typically contribute directly (positively) to the bottom line. However, some of the more common obstacles that may negatively impact the prospects for effective warranty management typically include:

• Improper accruals on the balance sheet
• Not handling warranty parts properly
• Untrained support staff
• Managing data, not facts
• Supplier relations that have been wrongly negotiated
• Inflating total warranty costs with unrelated, but otherwise very similar, costs

Regardless, without a formal set of objective, realistic, quantifiable, and actionable KPIs, your organization may never be able to accurately assess – and improve – its warranty operations performance over time. However, by using the proper mix of KPIs, both the organization, and each of its key departments and divisions, will be able to measure their success – or lack thereof – on an ongoing basis, with the added ability to identify problems, cultivate opportunities, and make improvements, as necessary, all along the way.
About the Author

Bill Pollock is President & Principal Consulting Analyst at Strategies For Growth℠ (SFG℠), 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, 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.

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