Warranty Matters

General Motors Edition

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What Causes High Warranty Expense?

Manufacturers typically initiate warranty compliance rules to insure their money is being spent properly and with management oversight. In most cases, the bottom line intent is to reduce warranty expense waste and compliance with the rules will always remain an issue during an audit.

But as we've said before, compliance is only part of the picture and not all compliance rules relate directly (or in some cases, even remotely) to what actually leads to out-of-line warranty costs. When you get down to brass tacks, the causes of excessive warranty expense fall into one or another of just a few categories.

Comebacks/Misdiagnosis—No list of this type can exclude shop comebacks as a possible contributing factor. But the truth is, if your shop works on vehicles, you will have comebacks (although we've known a few technicians who claim to never have comebacks, only repeat business).

So, with this in mind (and we get all kinds of funny looks when pointing this out), comebacks become a part of the cost of doing business for any manufacturer, as they are consumed into the average cost per vehicle serviced, or CPVS.

It's only when those comebacks become above "average" that they begin to have an adverse effect on CPVS. Of course, comebacks will remain a focus of warranty audits, even if it may not have been them alone that led to the audit. Still though, comebacks will often impact CSI more than warranty expense.

This makes it your responsibility to have a means to identify and track comebacks to isolate their root cause and implement changes to minimize their effects. While they will always be a part of life in the service department and are sometimes unavoidable, doing nothing about them is not an option.

Over Repairs—Now this one can have a tremendous impact on CPVS and may or may not be easy to control. Unfortunately, technicians sometimes know more about certain repair procedures than we do and can usually justify a few additional parts or labor with one excuse or another.

As a case in point, there was a transmission tech we used to know who had to completely overhaul every transmission that came in his stall—no matter what the complaint. He wasn't just saying he performed a complete overhaul either, as he actually did disassemble every one down to bare bones and found a reason to "justify" his decision.

No one, including the factory rep, knew as much, or more about transmissions than he, so he was left to his own devices until GM sent a field engineer to hold a condensed "transmission operation and repair" class with the service manager, warranty administrator and technician.

While questioning a transmission repair earlier this year a technician bluntly explained why he was replacing a particular part along with every overhaul by saying, "It's a preventative measure." This preventative measure was adding $400 per repair.

We've all known techs who tend to replace questionable parts with a certain

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repair, often insisting they were told to do it in school. The best advice here is if a repair seems questionable or you see a trend, do the research to find out if it is really justifiable. Call your rep or another dealer to learn what they are seeing and doing.

Straight Time—When justified, straight time is not normally a problem and in some cases can actually reduce warranty expense, primarily by compensating for overlapping or related operations.

On the flip side, one of our colleagues, tells us of a technician who would, back in the days of 5.0 hour straight time, actually purchase parts to repair the vehicle with his employee discount, just so he could claim a wiring repair—along with 5.0 hours straight time! Apparently he'd worked out the math to know where his "break even" point was.

From our experience though, straight time will become a problem when it is being used as a crutch to compensate under-qualified techs, or make up for misdiagnosis and/or over repairs. Pretty simple.

Add-ons—Without a doubt, add-ons can qualify as the single largest contributor to excessive warranty expense.

Years ago, an auditor demonstrated just how much effect the elimination of two add-ons a week could have in reducing out-of-line expenses and quite honestly, we were pretty amazed.

With the now-standard GM inspection sheet, it is very important to have a handle on add-ons, as they have created a Catch 22 of sorts. GM reps have preached the "Don't Sell Warranty" sermon for years, but common sense has to prevail somewhere.

We've brought this up before, but it bears repeating. These are sound guidelines when considering add-ons that no one can dispute:

1.) The customer requested it
2.) Found in shop and is a safety issue
3.) Found in shop and could strand the customer
4.) Found in shop and could result in a higher expense down the road if not repaired today

This means the squeak, rattle, wind noise or any other thing that doesn't fall into one of the above categories and isn't a problem for the customer shouldn't become one for you.

Another add-on that will always draw suspicion is the fluid leak add-on. After all, most customers aren't parking in gravel driveways and a visible fluid leak would certainly be a primary concern.

The Dealer Peer Analysis report is always a good place to start to see if your add-ons are out-of-line with your group. In the row noted "# Cases," look for any flags in the Over Percentage (OVR %) column and pull some claims.

But My Rep Approved That Claim!

There's sometimes a misconception in the field that if a rep approves a warranty claim or repair procedure the claim then becomes bulletproof. While we'd all like to wish it was true, there are so many variables involved on both sides that you really can't make that assumption.

To some extent, all manufacturers give dealerships a virtual checkbook to handle warranty repairs. While the rep is certainly part of the checks and balances of these transactions, there are also many other accountants involved, with the auditor often being the one with final say.

All too often, we've seen auditors say something to the effect of, "Regardless of what your rep may have told you to do, my decisions will be based solely on what the P&P says." If you think about it, that's really the only way of doing business, as there has to be some standard.

To understand why a rep-approved claim isn't always ironclad, you have to acknowledge that reps sometimes give approvals without knowing all the facts of the situation, or having actually examined the claim(s) in question.

If the approval was verbal, s/he isn't normally going to ask *if* the customer signed the repair order, *if* the add-on was approved, *if* the straight time was signed off and clocked separately, etc., etc., etc.

If the claim was H-Routed the same applies and they only know what was sent their way via comments. Often times they might not see that another job on the RO was a related repair attempt, or other facts pertinent to the decision.

In an effort to speed claim payment, they often make assumptions that you understand the rules and have applied them.

GWM Update

Last month we touched on a few changes coming our way with GM's Global Warranty Management system. Since then, we've learned of 2 specific launch dates and wanted to pass this information along.

The initial launch for Saturn dealers is scheduled for September 24, 2007, with a 12-month transition period expected. All other divisions, including Saab and GM of Canada will have somewhat of a reprieve, as the scheduled launch date is September 30, 2008.

We've heard a rumor that the system is actually already on-line in the U.S. and GM knows it's working properly because the first claim submitted was almost immediately rejected. (OK, that's just a joke…)

We have also learned that our familiar 5-digit labor operations will remain unchanged—at least for a while.

Eventually, labor operations will be standardized globally, but there is no specific target date for that change.

We suspect labor operations will become formatted in a completely different fashion once this change comes about. If they follow the common format of other manufacturers' global warranty systems, you can expect 6 or more digits for labor operations.

This allows the manufacturer to drill down to the specific system being repaired, area of the vehicle and sometimes ties the labor operation to the failed part, all in an effort to enhance information gathering capabilities.

It appears that initial GWM claim processing training will be done through the Interactive Distance Learning, web based training and a new users manual. Separate training for reporting functions will follow, but best we can tell, no hands on classes are scheduled.

Take a Picture—It'll Last Longer

One of our long-time clients called last month to let us know about a transport carrier who was trying to weasel out of a transportation claim for the replacement of the back glass on a new Colorado truck.

In the carrier's opinion, the glass "just shattered" and the failure should have been covered under warranty provisions rather than a T-Claim.

The Dealer Business Center's Vehicle Damage Group contacted the dealership's warranty administrator to look into the details. While you might not expect a warranty administrator to verify transportation damage in every situation, in this one she did.

The DBC said the carrier was denying responsibility and stated there was no way the glass damage was their fault by insisting the Colorado was loaded hood-first on the carrier. Although she hadn't personally witnessed the truck being unloaded, the warranty administrator told the DBC that she knew "for a fact" the vehicle was loaded tailgate-first.

She knew this because not only had she verified the damage herself, but she had taken pictures that clearly showed the broken glass and dead bugs on the tailgate! The carrier ended up paying for the damage. (Good job Jacque.)

We've stressed how some of these transport carriers will do their best to avoid responsibility, but the problem seems to be getting worse instead of better.

Taking pictures of damage is yet another way to CYA with transportation claims, or a warranty claim for that matter. Digital cameras are cheap insurance and the one time a picture pays off will more than offset the cost.

Warranty Matters

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The Money Game

Want to add some money to your department's bottom line? How about $10,000, $20,000, or maybe even $100,000 a year? Using very conservative figures, let's run some numbers.

First, let's assume that technicians blow at least an hour a day standing at the parts department, looking for their next job and parking the last one. (We've made individual studies that show up to 2 hours a day wasted in this fashion.)

NADA reported in 2006, the average shop had 12 technicians and the average labor rate was $83.00 per hour. 12 X $83.00 = $996 of potential lost revenue per day. $996 X 22 working days = $21,912 of lost revenue per month.

According to AutoTeam America, the average service department's gross profit margin as a percent of sales is 62.7%, but we said we'd be conservative, so we'll use 50%. $21,912 X 50% = $10,956 per month in lost gross profit. $10,956 X 12 months = $131,472 a year.

To accomplish this, you will need to all but eliminate technician trips to the parts department. One-way phone lines directly to the parts department are becoming more popular for this purpose, but anything you can do to reduce trips will help, including automatic package billing of "kits" for various services and oil filter cabinets for quick service.

Once the parts are assembled, parts personnel will deliver them directly to the technician. As an added bonus, the parts department should realize a dollar increase in gross profit that coincides with service increase.

(It gets my goat that some parts departments will buy a truck, hire a driver and drive around town all day for a 20% wholesale gross profit margin and won't walk across the shop floor to deliver a part for a 40% profit margin. But that's another story…)

Something as simple as numbered parking slots can help with the "finding my next job" issue, but some shops have taken it a step further. If the vehicle doesn't have to be road tested, they simply turn on the flashers and while their paperwork is being handled a driver is parking that vehicle and bringing in the next one.

In the end, it's all about eliminating all possible wasted movement. If the techs aren't turning wrenches, you aren't making money.

The Back Page

By now everyone's seen the ads touting Chrysler's new Lifetime Powertrain Warranty. While it makes for great advertising and will certainly move some metal, is it better than GM's 5-year/100K Powertrain Warranty?

As has been typical of various Chrysler powertrain coverage through the years, the warranty will follow the original purchaser or lessee, whereas GM's Powertrain Warranty is fully transferable (at no charge whatsoever) and goes with the vehicle, not just the owner.

The new Chrysler PT warranty has no towing coverage in the event of a powertrain failure. In conjunction with GM's powertrain warranty, roadside assistance is continued under the same terms.

So far, there is no mention of any sort of Courtesy Transportation provisions during the lifetime coverage for Chrysler owners. Again, GM's Courtesy Transportation coverage was extended to coincide with the 5/100 powertrain warranty.

Chrysler products don't support "Simplified Maintenance" and thus the requirement for the owner to return for a "powertrain inspection" every five years.

While this might get customers back in the service department, the catch is that these inspections have a 60-day window prior to the 5-year anniversary. Miss the inspection and void the warranty.

Something that can't be overlooked is what effect the new warranty will have on the residual value of their used vehicles.

Although Chrysler might deny this assessment, there is no way this "follow the owner" coverage can possibly add value to an owner's trade in.

On the other hand, if a GM owner decides to trade in after 3 years, their vehicle has the additional value of a possible two more year's warranty coverage.

This really is a no-brainer.