

Warranty Matters

General Motors Edition

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Myths, Legends and Tall Tales

Throughout the years, we've heard many a myth about warranty audits and auditors. Some are true and others are simply assumptions. Having experience on both sides of the fence, we thought this would be a good exercise to examine myths and legends about warranty audits across the manufacturers.

Myth: All audits are triggered by an out-of-line warranty expense report.

False—While out-of-line warranty conditions is the most common cause of an audit, they can also be initiated by:

- 1) A phone call alleging fraud
- 2) Poor CSI
- 3) Excessive Lemon Law buybacks
- 4) CSI survey with "work not performed" alleged

Some manufacturers such as VW Audi and Austin Martin conduct periodic audits regardless of a dealer's warranty expense.

And as far-fetched as it may sound, we've even seen audits initiated because someone at the dealership ticked off someone with the manufacturer.

Myth: Auditors have a pre-conceived dollar "target" amount, or quota, in mind before they arrive at the dealership.

False—Although an auditor may develop some theories about dealership practices by reviewing past warranty expense reports, until they put their hands on the actual paperwork they remain just that—theories.

As we've mentioned in past articles, the only quota would relate to how many claims they examine in a given time frame.

Myth: Claims to be reviewed are selected randomly.

False—Manufacturers have various tools at their disposal to zero in on claims with the highest impact to an out-of-line warranty expense. There are actually programs developed to target claims with the highest possibility of potential issues and they can be very accurate.

The only exception to this rule would be an extrapolation audit, where each claim has a debit potential up to 10 times more than its face value. In rare cases, these claims are randomly chosen by computer.

Myth: Auditors are only after money and they aren't there to help.

True & False—Unfortunately, this can go either way, but based on our experience the majority of auditors actually want to see the dealership improve their process and warranty expense numbers.

As we've discussed before, their performance is normally measured by a business case savings calculation and expense, or warranty waste reduction.

Myth: Auditors have the final say.

False—Whether the auditor will volunteer this information or not, there is al-

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- *There is no "Auditor of the Year" award*
- *"Random" is rarely the case when it comes to an audit*
- *Auditors are human and make mistakes*
- *Dealers can capitalize on auditor mistakes during the appeal process*
- *A rep's approval does not bulletproof the claim from future audit debit*

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ways some option for appeal. Years ago, a rather hardheaded and arrogant Mitsubishi auditor told a client “there is no appeal process.” We were quick to remind him that regardless of his opinion, litigation was a possibility and although he was unfazed by this realization, his supervisor wasn’t. They accepted our appeal, which resulted in a \$40,000 debit reversal.

Myth: It’s a waste of time to appeal audit findings.

False—In most cases, dealers appeal audit findings directly with the same people, or department that recommended the debits in the first place. With this consideration, many dealers feel it’s a waste of their efforts to file an appeal.

In reality, it is not unheard of for a manufacturer to “pad” an audit with some claims that are easily appealed because the policy is unclear or open to interpretation and therein exists opportunity.

If the dealer can present a compelling argument in defense of the claim—at least getting it into a grey area—the manufacturers are surprisingly open-minded in most instances.

In cases of debits due to alleged misrepresentation, the manufacturer might not reverse the debit, but could otherwise have it reclassified to a non-fraudulent cate-

Mileage Out

An area of warranty compliance that isn’t given much thought relates to “mileage out” entries. Most dealer computer systems will allow the user to turn the mileage out control on or off.

Even when the feature is turned on, the ending mileage is not always accurate, either because technicians aren’t in the habit of recording it, or someone simply adds one more mile to the end mileage during invoicing.

Why, GM doesn’t even consider it worthy of a mention in the P&P manual, but it is, nonetheless, an area that auditors examine and tends to hold up very well in court proceedings. Keep in mind, the repair order is a legal document.

For instance, if a customer concern suggests the need to perform a road test to verify the condition, or the repair requires a road test to verify the repair and the “out” mileage is only 1 more mile, there could be some concern from the auditor’s viewpoint.

Certain repairs actually require a road test to “relearn” the component. Even after reprogramming, some tire pressure sensors require a road test before the vehicle can “find” the new sensor.

gory, which is extremely important.

We should also point out that claims must be appealed individually instead of trying to make a blanket statement across a series of claims. The defense may be the same, but they still require separate appeals.

Myth: My rep approved this claim and it cannot be charged back.

False—While consideration is given for a repair procedure or decision if the rep was involved, that does not insure claim compliance.

When a rep provides approval, s/he has not physically inspected the claim for compliance in most situations. Therefore, the claim is still subject to audit for the standard compliance issues (add-on approval, time records, diagnostic printouts, etc.).

Myth: Auditors don’t have a sense of humor.

False—Just like everybody else, auditors have their own individual personalities, which often includes a humorous side. It’s just that most people don’t get to see that during an audit.

Fact is, some auditors are among the funniest people on the face of the earth, but you’d never know it otherwise!

An accurate out mileage also gives the dealership some clout when it comes to deflecting accusations of an improper quality control procedure.

As an example, once a check engine light concern is repaired it is appropriate to road test the vehicle to confirm the repair.

If the ending mileage reflects a 20-mile road test without the light coming back on, there was certainly an effort made to insure the repair fixed the problem.

If it comes back the next day with the same code, the dealer did, at the very least, road test to confirm the repair was proper and effective. After all, what else can we do to verify a repair than to road test it? We can’t drive the vehicle home for a week or two.

If it had no accrued miles at all yet returns shortly after the repair, it just gives the auditor another reason to suggest an improper repair and debit the claim.

Accurate mileage out readings can serve the same purpose for customer pay repairs and defend the dealership against those pesky customers who insist you used up all their gas while the vehicle was in your shop.

GWM North America Launch Schedule

GM has finally pinned down *some* dates for the launch of Global Warranty Management to the “GM proper” stores in North America.

The initial launch will begin in Canada on September 10, 2009. The U.S. dealers will follow shortly thereafter with launches initiated by Region, Zone and District.

Each Region’s launch is expected to take about 1½ months to complete and will often overlap with the beginning of another Region’s rollout.

The Northeast Region will begin the launch on October 12, 2009, as will all U.S. Fleet accounts, U.S. Saab stores and U.S. Medium Duty Truck dealers. The Southeast Region will follow suit in early November.

The order of launch for the remaining 3 Regions (South Central, West and North Central) has yet to be determined, however, they will all be initiated sometime during, or after, January 2010.

The third Regional launch is slated for mid-January 2010, the fourth for mid-February and the fifth and final for early March.

Although GM is searching for a buyer for Saab, which already filed for bankruptcy in February, they are optimistic about finding new ownership and feel the attempt is “in the final stretches.”

Nevertheless, they are slated to be part of the initial U.S. launch of GWM in October.

GM had communicated to Saturn dealers that the Global Warranty System would be shut down on June 6, 2009, through June 14, 2009, as part of the GWM launch preparation for North America.

[The 9-day Saturn system shutdown period has been moved to July 3rd through July 11th.](#)

The shutdown coincides with a very structured rollout of GWM and is required for performance testing, archiving and data loading.

Warranty Matters had the opportunity to view the GWM launch plans and we must say this is a very complex and coordinated undertaking that involves not only GM and dealers, but the various in-house dealer computer systems.

Customer Concern Not Duplicated Reminder

On May 20th, GM issued a reminder to dealers regarding the use on Customer Concern Not Duplicated/Verified (CCND) labor operations, which are addressed in bulletin #06-00-89-026.

The reminder (found in “My Messages” as bulletin G_0000029373) tells dealers they must provide a word-by-word description of the customer’s concern along with a detailed explanation of the diagnostic steps used to analyze the concern.

Since GM cannot normally “see” the actual customer concern or technician comments upon claim submission by most Dealer Management Systems, the dealership should restate both in the “Comments” field.

Although GM’s system will not reject claims submitted without this information in the comments section, the reminder bulletin makes it clear that CCND claims are “*subject to audit*” and, yes... “*subsequent debit*” if they do not.

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The Money Game

Along with what appears to be the majority of people in the U.S., we're having a hard time swallowing the franchise non-renewal letters sent out by GM on Friday, May 15th.

Particularly confusing is the reasoning behind it, as there really doesn't seem to be anything sound. Granted, there are too many dealerships in some markets and some dealerships are underperformers, but these dealerships are providing jobs for thousands of Americans. Other than the cost of a rep to maintain the account, these stores aren't costing GM a dime.

As perhaps one of the worst examples, a long time friend of ours received the letter along with 1,123 other dealers. This store is well capitalized, has excellent CSI, has remained profitable and sold 600 vehicles last year. To top that off, they'd built a brand new facility only a few short years ago. Not only that, but just 4 days after the non-renewal letter was received the dealership celebrated their 78th anniversary as a Chevy dealership!

Maybe 600 sales a year wasn't quite enough for GM to continue the relationship with this well respected dealer. Maybe the store wasn't as profitable as they thought it should be, but they weren't losing money. It was obviously profitable enough for the owners to remain in business and provide income for who knows how many employees over the past 78 years.

When discussing this and similar situations across the country with a colleague, the conversation naturally went to the possibility of lawsuits. His contention was that he doesn't understand why dealers would go to the trouble of suing GM since there wasn't any money to settle suits.

For most dealers though, it isn't about money. It's about the right to operate the franchise that many have put their hearts and souls into for much of their lifetime. If these businesses falter, they want to be the ones making that call—without someone from the outside telling them they have failed.

By the time this newsletter reaches our readers, GM will have made the decision about whether or not to file Chapter 11 bankruptcy, which most industry experts tend to feel they will. If that happens, the letters will be a moot point and will have served only as a smokescreen for the inevitable.

The Back Page

On May 15th, shortly after the non-renewal letters were received by 1,124 GM dealers, GM VP of Sales, Service and Marketing, Mark LaNeve, hosted a media advisory session to update news organizations regarding dealer consolidations.

I sat in on that meeting along with other members of the press and several of us noted a problem with the numbers Mr. LaNeve was citing.

GM had 5,969 dealerships as of May 15. Letters went out to 1,124 dealers. Saturn, Saab and Hummer franchise closures will account for another 500 dealers.

GM has said they plan to reduce the dealer count to 3,600 by the end of 2010. Using the numbers provided by Mr. LaNeve, that would leave 4,345 dealers—a far cry from 3,600.

So where will the other 745 dealers that GM insists need to be trimmed come from? To be quite honest, I don't think anyone got a clear answer during the interview.

Mr. LaNeve contends that natural attrition due to the economic situation will account for more closures. He also stated that some dealers who did not receive letters were due to upgrade their facilities and predicted that many would not be willing to follow through.

Then late last week we learned that GM has targeted an additional 430 dealerships that are going to be given notice over the coming weeks of what they must do to have their franchise agreements renewed in 2010.

It appears likely some of these stores will also receive non-renewal letters.