

WHITEPAPER

Warranties are Worth a Closer Look



PROMETHEUS GROUP



Warranties are Worth a Closer Look

Effective Warranty Management Has a Considerable Impact on the Bottom Line

Asset intensive companies have an untapped opportunity: optimize warranty processes and reap both financial and operational benefits. Warranty claim revenue is just the beginning. Improved asset reliability and production and better supplier decisions are the ultimate rewards.

Historically, warranty management has been a paper-based, manually intensive administrative task – the kind that is commonly relegated to a nonessential role. Consequently, equipment and fleet assets received service when needed, and the associated maintenance warranties were addressed as an afterthought or missed entirely. Any potential advantages were often perceived to be insufficient to offset the effort to track warranty statuses and pursue warranty claims.

Today, the rewards of actively managing warranties are easy to achieve, whether you maintain your equipment in-house or contract with service providers or the OEMs themselves. New, software-enabled processes that are intertwined with ERP asset management systems facilitate the coordination and communication of warranty efforts, leading to significant maintenance cost recovery, greater asset uptime and production, and lower asset lifecycle costs.

This paper summarizes the challenges to effective warranty tracking and management, the direct and indirect benefits of warranty process automation,

characteristics of an effective warranty system such as the Prometheus Warranty Tracker module, and how to get started.

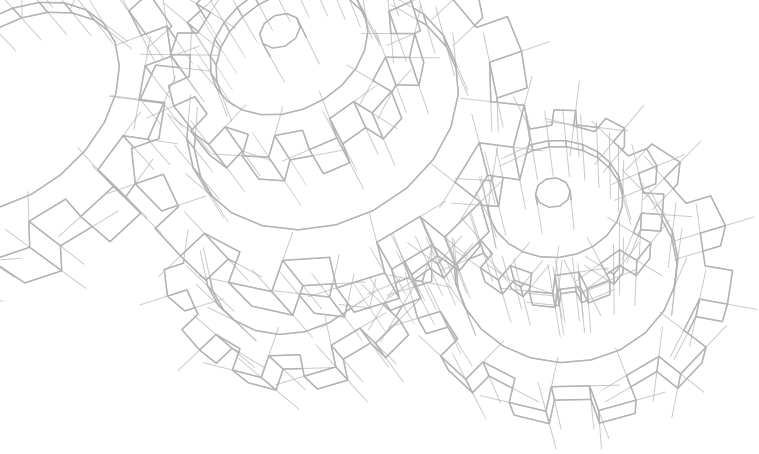
Warranty Challenges Create Missed Opportunities

Today's consumers learn young and are reminded often about warranties. Each time they purchase an electronic or mechanical device, they are encouraged to register it right away and purchase an extended warranty when the original nears expiration.

The high cost, criticality, and often unique nature of industrial equipment and parts make them deserving of a tightly controlled warranty process.

This guidance is often disregarded when the odds of equipment failure are low, the cost of replacement is low, or falling prices and a steady stream of newer, more appealing alternatives will render the failed item obsolete. Why file a warranty claim for a \$200 tablet or an \$80 printer and wait weeks or months for repairs or a replacement when you can just purchase a new one?

Warranties also tend to be forgotten. When an item fails after a couple of years of use, who remembers to cross check the warranty terms or whether it was purchased with a payment method that automatically extends the warranty? If a particular brand fails more often than others, is that knowledge factored into future purchase decisions?



In industrial and fleet settings, similar concerns exist, even though the high cost, criticality, and often unique nature of an organization’s equipment, sub-assemblies, and non-maintainable parts make them deserving of a tightly controlled warranty process.

Most maintenance organizations realize that they should identify, claim, and track the recovery of their warranties, but it’s frequently viewed as a difficult task given the limitations of their asset management systems. Those that try often resort to external spreadsheet-based files and institute processes that are largely manual and lack sufficient controls. This approach increases the risk of missed opportunities and errors, and limits visibility into the full potential of warranty benefits.

Warranty claims typically represent 3 to 5 percent of capital spending, and between 8 and 20 percent of repair costs.

Direct and Indirect Benefits are Within Reach

Warranty claims represent an opportunity to increase production uptime, recover large cash expenditures,

improve reliability engineering strategies, and strengthen supplier relationships. Each of these benefits has a positive impact on the bottom line:

- **Reliability and Production Gains:** Armed with data, asset maintenance and reliability strategies can be modified to reduce warranty failures and increase asset uptime and production.
- **Cash Recovery:** Warranty costs can be one of an organization’s largest expenses. A warranty claim is a request for compensation and therefore a receivable.
- **Engineering Improvements:** Warranty claims that reveal high rates of “infant mortality” enable the engineers to reassess their design criteria to avoid failures.
- **Procurement Improvements:** Warranty claims that reveal consistently poor-performing brands or vendors enable procurement organizations to make better purchasing decisions because unexpected failures and production downtime costs are far more consequential than reclaimed warranty costs.
- **Supplier Relationship Improvements:** Providing accurate warranty information improves recovery rates and speed, supports justification for product quality improvements, and increases supplier trust. Top industrial performers usually have excellent relationships with their suppliers and ensure a high level of information sharing to prevent production disruption.

Just how much is at stake? The following table illustrates a typical warranty expenditure scenario.

Type	Rate as % Spend	Warranty Period
New equipment	3%	12 months
New parts	1%	6 months
Rebuilt parts	5%	6 months
Contract labor	5%	6 months

The figures above represent only the direct cost benefits. Optimized warranty processes also increase production uptime, which could add significant amounts of production value to the bottom line. In addition, sound warranty processes capture the knowledge needed to drive business initiatives and purchasing strategies that will increase asset reliability, thus reducing the incidence and high costs of asset failures, unscheduled maintenance, and production losses.

In the example below, nearly \$1 million in warranty recovery revenue could be realized in one year if the warranties are properly tracked and claims are effectively managed.



Type	Annual Spend	Rate	Opportunity
New equipment	\$10,000,000	3%	\$300,000
New parts	\$5,000,000	1%	\$50,000
Rebuilt parts	\$5,000,000	5%	\$250,000
Contract labor	\$5,000,000	5%	\$250,000
Total	\$25,000,000	3.4%	\$850,000

What Do You Need to Track?

To achieve all the possible direct and indirect benefits, it is necessary to:

1. Treat warranties as receivables and get organized to collect them.
2. Involve other departments in your warranty processes to increase production.
3. Work with suppliers to get their best service.

A structured internal warranty management approach that aligns with the supplier’s own processes is required. It’s not enough to know that a warranty exists. ERP asset management systems like SAP PM and Oracle eAM contain warranty flag and date fields only, but they lack the ability to systematically capture warranty details and create actionable relationships to work orders.

The Prometheus Warranty Tracker module fills the gaps in the ERP warranty processes. It automates vendor claims for warrantable repairs and facilitates cooperation and communication with other departments as well as the various suppliers. With Prometheus Warranty Tracker, you can:

- **Document and track all warranties:** Identify which new equipment, parts or sub-assemblies, rebuilt parts, and contract labor are warranted.
- **Understand the warranty terms and conditions:** Are parts and labor for repair, rebuild, and/or replacement included? How long is the warranty valid? Are certain conditions or processes required to qualify for the warranty, for example, scheduled oil sampling?

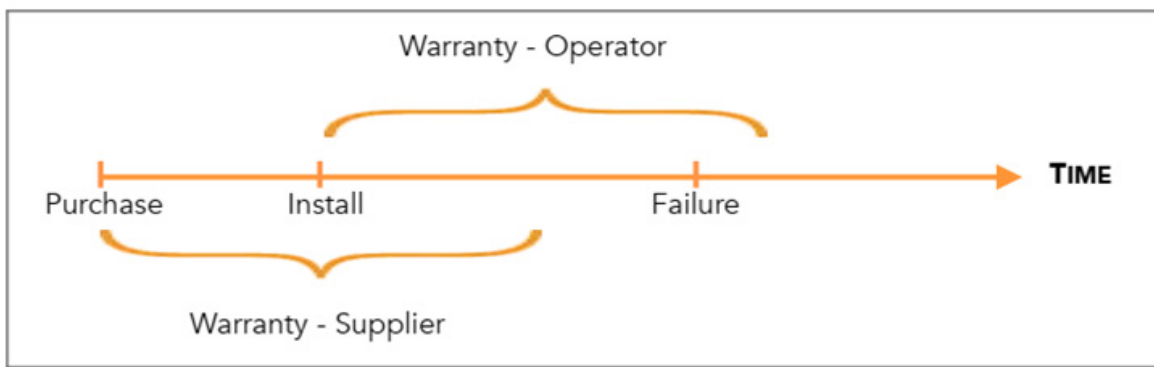


Figure 2 - Monitor the warranty clock using purchase, install, and failure dates

Working with suppliers:

- Claim the right warranty
- Track install dates for components (see Figure 2)
- Align the warranty work process with what is needed by suppliers to allow the claim (e.g., previous repair reference, parts retention, etc.)
- Provide the information needed to drive design and manufacturing quality improvements
- Provide the information needed to improve vendor negotiations and selection

The Prometheus Warranty Tracker module supports each of these capabilities and automates much of the entire warranty process. Once the contract details are entered, it will track warranty statuses, review maintenance work orders against the warranty status, generate claims, and track the claim status. All that's left for the user to do is to issue the generated claims to the vendors.

Warranty Tracker integrates with Prometheus Planning & Scheduling and the other parts of the Prometheus Platform to ensure that warranty-required work is performed. It is implemented out-of-the-box in a matter of days and its flexible workflow can be tailored to meet unique needs.

Numerous additional capabilities set Prometheus Warranty Tracker apart from the alternatives. For example, both equipment- and part-level warranty coverages are tracked, including asset sub-assemblies that are covered under different warranty terms. It provides visibility for all warranted products, from the most expensive equipment to the less-expensive non-maintainable parts.

For complex equipment, an unlimited number of contracts can be entered into Prometheus Warranty Tracker, and there is no limit as to how many contracts can be associated with a single vendor. Each contract can have multiple unique equipment or parts coverages, including calendar-based warranty durations or any number of consumption-based measures, such as mileage, meter readings, or hours in service.

Any single equipment, component, or part can be assigned to as many coverages and contracts as required.

Additional Keys to Success

An effective warranty process will address the complete warranty cycle, including identification, management, and measurement.



Identify: Register warranty eligibility on all assets so that you can confirm which repairs are under warranty and initiate the work process accordingly.



Manage: Alert the supplier of an impending claim, seek their advice, and schedule the replacement or repair. If service must be performed immediately, seek reimbursement or credit for all warranted expenses.



Measure: Follow the financial progress of the claim, share warranty information with other departments, and work with the supplier to reduce warranty breakdowns. An organization's people, processes, and technology will determine its degree of warranty recovery success.

Responsibility for warranty claims should be clearly delineated, and the information should be shared in a timely and efficient manner to all affected individuals. The warranty process should be specific to maximize recovery potential. Above all, the technology chosen should fully support your warranty process and provide return on investment through increased warranty recoveries.

With Prometheus Warranty Tracker providing structure for these best practices, there is no need to leave money on the table anymore. Now you can actively recover costs that might otherwise go unclaimed; reduce claims and collection processing costs; reduce maintenance, repair, and asset lifecycle costs; improve product and vendor decisions; and ultimately achieve greater asset quality and productivity.

Next Steps

With the right tools in hand, it is easy to get started and achieve a substantive return on investment:

1. Select a robust warranty management system like the Prometheus Warranty Tracker module.
2. Assign a clerical staff member to enter your warranty contracts into the software.
3. Process the warranty claims generated automatically by the software.

If time or resources are limited, consider engaging a warranty process consultant to determine which contracts and claims represent the highest risk with regard to production losses and maintenance costs, and focus attention on those. Processing the biggest and most critical claims will noticeably improve your bottom line.



Learn more about how Prometheus Group can help your organization today.

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About Prometheus Group

Prometheus Group is a leading global provider of comprehensive and intuitive enterprise asset management software solutions that work within ERP systems and span the full work management life cycle for both maintenance and operations. Developed jointly with end users, Prometheus software enhances the customer experience for planning, scheduling, and executing work for both routine maintenance and shutdowns and turnarounds, all while protecting the workforce with safety solutions and electronic permit to work. Our straight-forward functionality, graphical visualization, and simple processes enable customers to increase productivity, reduce costs, and improve reporting. For more information, please visit www.prometheusgroup.com.