

CLEPA Warranty conference May 2015

Specification and Warranty – Bettina Hermann



Agenda

- 1 Warranty trends**
- 2 Implications for the suppliers**
- 3 Summary**

Development of automotive warranty in the last years

General situation

- ▼ Increased product quality, reduced warranty cases.
- ▼ BUT: tremendous increase in warranty costs.
- ▼ Warranty costs higher than 2-4 % of vehicle costs, overall cost higher than \$ 30 bn per year as experts had estimated before.

Challenging customer approach

- ▼ Warranty used as cost recovery source, not as problem solving process.

Warranty and compliance:

Warranty under Compliance aspects:

Have control over liability by controlling the (internal and external, including where possible customers`) processes which lead to the liability.

Controlling the warranty process

- ▼ Prevention
- ▼ Align internal processes
- ▼ Evaluate risk of product.
- ▼ Distinguish strictly interfaces
- ▼ Understand contribution of others
- ▼ Be involved internally and externally
- ▼ Watch costs and liabilities
- ▼ Control sub-suppliers
- ▼ Leave no open door when chance to settlement comes up

Warranty per law

Warranty per law is a **promise** of the supplier to the customer related to the product.

- ▼ The product has to comply with the agreed technical conditions of a part at date of delivery.
 - ▼ Legal period: 24 months (as per international sales law) after delivery to the customer.
- ▼ Consequences of a defect:
 - ▼ Part replacement/ repair, reduction of PP
 - ▼ Only limited possibility for damage indemnification.
- ▼ Without an explicit agreement in place: The expectation of a consumer applies.
- ▼ Risk if customer defines “promise”

A warranty case is an unfulfilled promise

Responsibility and „agreed specification“:

*„Parts shall be deemed to be free from defects when they do comply with **agreed specification**“ ?*

- ▼ Desired definition of a warranty case:
 - ▼ A given promise is not fulfilled and by that has caused a defect.
 - ▼ The supplier is proven to be responsible for the technical root cause of the defect.

- ▼ If a case warranty occurs:
 - ▼ Be involved in all steps of process

How to document a proper promise

The proper specification/ statement of work (SOW)

The supplier's promise is normally defined in the Specification/ Statement of Work:

- ▼ Specification has a core role in a decision around responsibility
- ▼ The author of the specification controls the liability process.
- ▼ A specification/ SOW is task of customer and supplier.

Contents of a typical specification/ statement of work

What are the typical contents of a SOW:

Only technical specific tasks related to product tasks:

*“Warrant the technical specification of a **product**”*

- ▼ Technical requirement of a product.
- ▼ Drawing, design, technical dimensions.
- ▼ Manufacturing specifics, resulting in a condition of the product.
- ▼ Testing methods and process.
- ▼ Function, technically defined
- ▼ Interfaces to other suppliers parts, systems.
- ▼ Customer contributions required, customer responsibilities (interface agreement)
- ▼ Task allocation

What a specification (statement of work) should not contain

What has to stay out of a SOW :

All non product specific, but related to general obligations or conflicting with contracts:

- ▼ Liabilities for general non technical performances.
- ▼ unspecific function of the vehicle.
- ▼ Lifetime responsibility, unspecific.
- ▼ Warranty periods, unspecific.
- ▼ Penalties, lump sums, set-off rights, damage claims.
- ▼ Inspection liabilities.
- ▼ General compliance with contracts, purchasing T&C, laws all over the world, etc.
- ▼ Fit for purpose.
- ▼ Intended usage.

What a specification (SOW) should not contain

How to get control over our promise

Why has this to stay out of a SOW ?:

Such topics abstractly **guarantee the warranty**, like

- ▼ Guarantee to take over global abstract liability
- ▼ Accept warranty periods conflicting with contract.
- ▼ Give up any possibility to negotiate.
- ▼ Take over customers' responsibility for vehicle instead of component.
- ▼ Accept responsibility for undefined usage of vehicle by consumer.
- ▼ Accept global legal compliance.
- ▼ Accept to take vehicle responsibility for product liability (safety) reasons.
- ▼ Global function responsibility related to any trouble in vehicle.
- ▼ Switch burden of proof.

Warranty as per customer agreements

Warranty in customer view under customer request

Warranty per customer understanding is liability of the supplier for compliance and inter alia for function in vehicle, like

- ▼ Cost, action and unlimited damage for a problem in the vehicle and field application. (e.g. fit for use, intended purpose, any law in the world)
- ▼ SOW contains hidden pitfalls regarding legal liabilities included.
- ▼ warranty responsibility if customer deadlines are missed.
- ▼ responsibility in NTF at least to 50 %.
- ▼ Warranty period 5-10 years < after first registration of vehicle and a mileage whatever lasts longer or take responsibility even thereafter.
- ▼ Customer controls root cause investigation.

New trends of customer requests

Increasing Trends of Customers request

(is at all not warranty related but results in uncontrollable liabilities)

- ▼ **Confuse** warranty with other legal claim instruments, e.g. product liability.
- ▼ **„Basket“** responsibility: No proof of defect and responsibility, limited investigation.
- ▼ **Damage claims** created, at all not warranty related,
- ▼ **Safety recalls**, campaigns.
- ▼ **Quality** target -, PPM liability.
- ▼ **Special mileage, special function-**/ field application liability after customer release.
- ▼ **Warranty period** starts with first registration of vehicle or **spare part** implementation.
- ▼ **Changes in terms and costs** can be done unilaterally by customer at any time.

Summary

- ▼ **Preventing risk is not only a question of contracts with customers.**
- ▼ **Control of warranty risks means on the technical side:**
 - ▼ Understand the customer request
 - ▼ Understand the product and related technical risks.
 - ▼ Document concerns in the specification.
 - ▼ Drive down the warranty obligation to „agreed specification“.
 - ▼ Control the processes internally and respectively during customer investigation.
 - ▼ Have a „foot in the customer’s door“.
 - ▼ Be sensitive to commit to any (implicit) acceptance under pressure or submit uncoordinated information.