

Scotsman Ranked Best-in-Class in Warranty Management

Winning with Integrated Warranty Management

Managing the Pulse of Product Quality and Performance
June 2006

Warranty Benchmark Report Excerpts

Small-to-Medium Business Dwarfs Global 500

Scotsman Ice Systems – a best-in-class mid-size manufacturer of consumer and commercial ice makers – and its peers in the small and mid-sized categories of respondents turned out to be better performers than their larger counterparts, across several key performance indicators (Table 1). In fact, in claim processing and product returns, small companies outperformed large companies by at least a margin of 2 to 1.

Table 1: SMBs Outperform Larger Counterparts on All Counts

	% of Revenues Spent on Warranty Claims	Avg. Claim Processing Time (business days)	% of Products Returned w/in 1st Warranty Period
Small (Less than \$50M)	1.8%	5.0	4.7%
Mid-Size (\$50M - \$1B)	2.1%	6.0	6.4%
Large (\$1B+)	2.6%	10.0	11.1%

Source: AberdeenGroup, June 2006

One possible explanation for this marked difference is that the smaller organizations Aberdeen interviewed were much more successful in executing on the number-one strategy for effective warranty management – integrating the service organization more closely with design and/or manufacturing.

In Scotsman’s case, the executive sponsor of the warranty team is the vice president of engineering, and there is a designated “captive engineer” who serves on the warranty team full time.

“We work hand-in-hand with the engineering team, so all the accumulated knowledge we have on product reliability and performance serves as critical input into new product design,” said Scotsman’s warranty cost and supplier quality manager.

Key Takeaway: *At 52% of best-in-class companies Aberdeen surveyed, a senior service director or executive oversees all aspects of warranty management, including contract definition, claims processing, and analytics.*

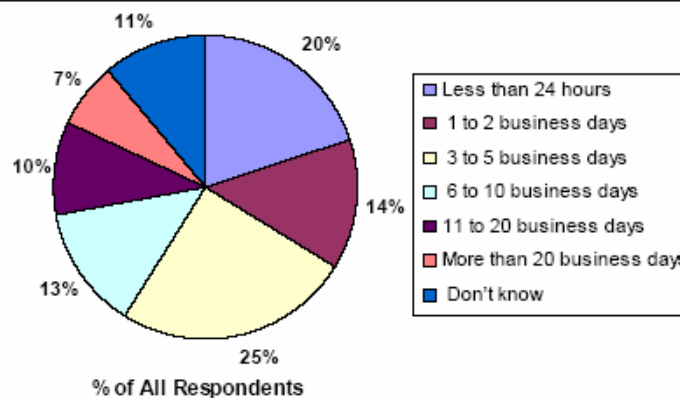
By the Numbers

Nearly 40% of companies view effective and efficient warranty claims processing as a key challenge. Processing a warranty claim includes three main process steps:

- 1) *Submission* of a claim, with all pertinent information on product, parts, labor, and the like;
- 2) *Validation* of entitlement and coverage, under the warranty terms; and
- 3) *Settlement* of the claim, including authorization of in-warranty deliverables and/or payment of required funds to service network partners or end customers.

The majority (59%) of companies Aberdeen surveyed complete this cycle in 5 business days or less, on average (Figure 1).

Figure 1: Average Warranty Claim Processing Time



Source: AberdeenGroup, June 2006

For Scotsman, effective claims processing relies on a disciplined approach to adjudicating claims.

“Every product we ship has a unique serial number,” said Scotsman’s warranty cost and supplier quality manager. “Validating claims involves confirming the serial number and the agreed-upon warranty period, which is keyed off of the original ship date or the product registration date.”

As is the case with 68% of the companies Aberdeen surveyed, Scotsman uses a warranty claims processing system to capture submissions, flag duplicate and suspect claims, and process settlements.

Key Takeaway: *Best-in-class companies, on average, spend 0.9% of annual revenues to support warranty claims, take 1.4 business days to process a warranty claim, and 2.5% of their products get returned for repair during the initial warranty period.*

Warranty Leaders Mix Technology Types

Due to the fact that the warranty chain impacts and is impacted by so many segments of the product value chain, there is a collage of technology solutions available to OEMs and their warranty chain partners. The top three solutions utilized by best-in-class companies are warranty claims processing systems, spreadsheets, and warranty reporting systems.

But rarely does a company rely on just a single IT system to support warranty chain activities. In fact, best-in-class companies rely on a combination of four separate systems to automate warranty management processes, on average.

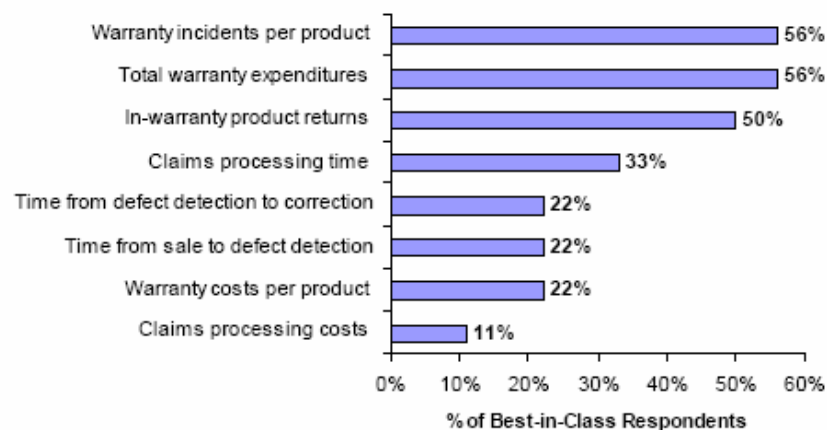
In the case of Scotsman Ice Systems, for instance, a warranty claims processing system accepts, validates, and settles claims, while an integrated business intelligence tool crunches historical and trend data, advising service managers of exceptions worth handling via a dashboard interface.

Key Takeaway: *Best-in-class companies rely on a combination of four separate systems to automate warranty management processes, on average.*

Top KPIs for Best-in-Class

The primary purpose for collecting and tracking warranty-related data is to monitor and improve performance. The top three key performance indicators used by best-in-class companies to monitor warranty chain performance are warranty incidents per product, total warranty expenditures, and in-warranty product returns (Figure 2).

Figure 2: Product Warranty Incidents & Expenditures Top KPIs for Best-in-Class



Source: AberdeenGroup, June 2006

Key Takeaway: *The top three key performance indicators used by best-in-class companies to monitor warranty chain performance are warranty incidents per product, total warranty expenditures, and in-warranty product returns.*

For More Information

See the full Aberdeen Group research report, *Winning with Integrated Warranty Management* (June 2006), at www.servicebench.com