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Foreword by Maximilian Kammerer

WARRANTY FRAUD MANAGEMENT

**Reducing Fraud and Other Excess Costs
in Warranty and Service Operations**

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Warranty Fraud Management

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Warranty Fraud Management

*Reducing Fraud and Other
Excess Costs in Warranty
and Service Operations*

**Matti Kurvinen
Ilkka Töyrylä
D. N. Prabhakar Murthy**

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Library of Congress Cataloging-in-Publication Data is available:

ISBN 9781119223887 (Hardcover)

ISBN 9781119239703 (ePDF)

ISBN 9781119239741 (ePub)

Cover Design: Wiley

Cover Image: ©iStock.com / 1xpert

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

Dedicated to

*Sirpa, Joni, Saila, and Niina, I love you all,
and the memory of Marko, I miss you — MK*

*Susanna, Markus, and Sonja, for their understanding during
the long hours it took to complete this book — IT*

Jayashree for her support — DNPM

Contents

Foreword xiii

Preface xvii

Acknowledgments xxiii

About the Authors xxv

Chapter 1 Overview 1

- Warranties 3
- Warranty Servicing 4
- Warranty Costs 5
- Warranty Fraud 6
- Impact of Warranty Fraud 9
- Warranty Fraud Management 10
- Study of Warranty 10
- Goals of the Book 12
- Structure of the Book 12
- Note 14

Chapter 2 Products and Product Warranty 15

- Products 16
- Product Performance, Failure, and Reliability 19
- Product Maintenance 24
- Product Warranty 26
- Maintenance Service Contracts 36
- Insurances 37
- Notes 38

Chapter 3 Warranty Servicing 39

- Parties in the Warranty Service Network 40
- Warranty Service Process 46
- Outsourcing of Warranty Service 54
- Contracts 56
- Notes 62

Chapter 4 Warranty Costs 63

- Different Perspectives 65

Factors Underlying Warranty Costs	68
Warranty Cost Metrics	72
Warranty Reserves and Accruals	77
Warranty Cost Control	78
Notes	79
Chapter 5 Warranty Management	81
Evolution of Warranty Management	82
Service Life-Cycle Perspective	84
Product Life-Cycle Perspective	95
Organizational Structure	100
Warranty Management Systems	105
Warranty Management Maturity Models	122
Notes	124
Chapter 6 Warranty Fraud	125
Fraud in General	126
Actors and Victims of Warranty Fraud	128
Classification of Warranty Fraud	129
Fraud Patterns	130
Consequences and Impacts of Warranty Fraud	135
Customer Fraud	139
Service Agent Fraud	147
Sales Channel Fraud	162
Warranty Administrator Fraud	166
Warranty Provider Fraud	169
Notes	175
Chapter 7 Warranty Control Framework	177
Contracts	180
Transaction Controls	181
Analytics	183
Service Network Management	187
Chapter 8 Customer Fraud Management	189
Customer Contract	190
Customer Entitlement	200
Material Returns Control	207
Analytics	208
Notes	213
Chapter 9 Service Agent Fraud Management	215
Service Agent Contract	216
Entitlement and Repair Authorization Processes	237
Claim Validation Process	239

Analytics	248
Material Returns Control	278
Service Network Management	280
Notes	291
Chapter 10 Fraud Management with Other Parties	293
Sales Channel Fraud Management	294
Warranty Administrator Fraud Management	299
Warranty Provider Fraud Management	305
Chapter 11 Structures Influencing Warranty Fraud	307
Effective Service Process	308
Service Organization	315
Notes	318
Chapter 12 Implementing a Warranty Control Framework	319
Assessing The Current Situation	320
Crafting an Improvement Plan	322
Defining Policies and Rules	322
Building the Capabilities	323
Deploying the Change	325
Business Case Considerations	327
Implementation Challenges	328
Achieving the Transformation	329
Chapter 13 Epilogue	331
Opportunities to Improve Warranty Control	333
New Research into Warranty Fraud	335
Appendix A Detailed Claim Data	337
Appendix B Agency Theory	343
Appendix C Game Theory	347
Glossary	351
Acronyms	355
References	357
Index	363

Foreword

As warranty management has seen a significant evolution over the last 25 years—from a purely reactive/administrative task toward a strategic component within the product life cycle, and nowadays even more as an essential part of how to manage the customer experience in the customer/consumer purchase-to-repurchase cycle—it is surprising how limited the available literature on warranty management and fraud avoidance is.

Matti Kurvinen, Ilkka Törylä, and D.N. Prabhakar Murthy have now written an important book about this topic. They are addressing all major points of warranty (fraud) management and explaining many important topics and interdependencies. As it provides many practicable samples and a very pragmatic approach to many theories, this book is the perfect reading for everybody who has to deal with warranty management, either looking for new insights or as an excellent holistic overview for those who are new in the business.

The first few chapters focus on explaining the general area of warranty and associated terminology and influencing levers. In Chapter 2, there are essential insights about products and warranty concepts. The authors describe the correlation between product performance, failures, and product reliability, followed by an explanation of the nature of warranty and different types and classification of warranties.

After a general description of the topic and clarification of core terminology, Chapter 3 describes the warranty servicing process, channels and parties in a warranty service network, and associated contracts. As warranty cost is the most critical metric for most warranty owners, Chapter 4 concentrates on this topic. It describes critical factors underlying warranty costs, warranty cost metrics, and warranty cost forecasting and management.

With Chapter 5 the authors are going beyond the core descriptions and explanations. From my perspective, this chapter touches one of the most important areas, which—unfortunately—is not really managed well in most companies, as it requires true holistic business understanding and associated mandate to influence entire processes and business models. This chapter looks at end-to-end warranty management from a product life-cycle perspective, including critical key

decisions to be made at different stages of product life cycle. As soon as the preparation determinations are made during the product creation stage, the focus must change toward the service life-cycle perspective and how to manage the warranty process from bringing a product to market and to customers, to how to provide warranty service, to subsequently managing the claims process and related invoicing and payments within the service delivery ecosystem.

Chapter 6 goes into details of potential fraud variants with many useful samples and cases. It introduces the different forms of warranty fraud and a structure looking at the actors, victims, motivations, and methods for fraud. Especially when looking at how to improve warranty (fraud) management in your organization, there is a holistic perspective of what could go wrong. In addition, the chapter highlights several aspects that are addressing the motivation and root cause for fraud attempts, such as underpay by original equipment manufacturers or too-high investments in required infrastructure, tools, and certification.

Although all attempts are to a certain extent unethical, there should be a difference between intentionally driven (criminal), opportunistic, using gaps in the system (criminal), and unconscious (unaware and missing knowledge) motivation. The chapter provides a deeper insight into what root cause has been “created” by the warranty provider itself or brings weaknesses of service delivery ecosystem to the surface.

As soon as warranty owners understand motivation and applied methods of warranty fraud, they are reasonably prepared and can make the first step toward initiatives on how to fight against it. Chapters 7 to 10 provide insights on how to manage or even avoid fraud, including many examples. The authors provide core understanding for how to create a basic structure for a manufacturing company, how to manage warranty fraud and more specific methods for customer fraud avoidance, and opportunities for fraud detection and management. Methods for fraud avoidance and management are given from many different perspectives and directed at all parties of a holistic warranty service delivery ecosystem. Based on their own experience and expertise, the authors share practical ways to direct focus to start initiatives against warranty fraud.

Very often, warranty (fraud) management is established as a functional entity within the service organization, with limited access and mandate to improve or change relevant processes or business models. The sphere of influence of warranty (fraud) management owners

is very small and realistically restricted to information gathering, analytics, and reporting. In order to drive significant changes, they are dependent on many other stakeholders and business owners outside of their influence. Chapter 11 takes a holistic view of the customer service process and service organization—what are the mechanisms, when and where to influence warranty management in general and warranty fraud management in particular. By understanding the end-to-end picture and the associated levers where to tackle warranty fraud most effectively, this chapter gives excellent input for organization design and associated governance principles.

Closely linked to organization design, processes, and governance are the underlying capabilities for organizations, which are described in Chapter 12. Here the authors lay out an initiative to improve warranty fraud management capabilities. They describe the key considerations from understanding the as-is situation through laying the foundation for improved warranty control and developing critical capabilities and how to implement these.

Finally, Chapter 13 gives an interesting outlook toward new approaches and potential impact of new technologies.

Overall, I highly recommend you read the book if you are directly or indirectly responsible for reducing warranty fraud and improving the warranty management process in your business. There are many ways that you can positively impact the bottom-line success of your company by taking this topic seriously and approaching it in a holistic way. The shared expertise of the authors will help you avoid mistakes and improve the overall approach to warranty (fraud) management.

Maximilian Kammerer
Altaussee, Austria, December 2015

After various leading after-sales service positions at Apple and being the Global After Sales Service Executive at NOKIA Mobile Phones at its height, Maximilian Kammerer is one of the thought leaders in the after-sales service industry. In addition, Maximilian has been lecturing several years at the ISS International Business School of Service Management in Hamburg. Nowadays, as Partner at Barkawi Management Consultants and Managing Partner at 1492: \ The Collective Intelligence, Maximilian is developing new service strategies and designing the right organizational capabilities to execute these strategies. One focus area is how to avoid fraud, or at least to properly manage warranty cost without negatively affecting the customer experience within the service delivery ecosystem.

Preface

A multinational manufacturer made an after-sales process assessment to evaluate its performance and compare it with leading practices across comparable industries. The initial focus was on operations in Europe. One of the findings was that the warranty costs across countries within the company were not consistent, taking into account the general cost levels and sales volumes per country. A closer study revealed further inconsistencies and bigger anomalies, comparing different service agents inside each country.

That triggered the need to initiate activities to understand what was going on and ways to detect problems (such as fraud) and reduce the amount of warranty costs, starting with a few pilot countries. The results were almost instant. Many service agents had, over the years, learned to work around the seemingly loose controls of the manufacturer, and significant levels of fraud were detected. The manufacturer decided to accelerate the work and widen the focus to other European countries, which yielded similar results.

After the successful European implementation, the regional service heads of the manufacturer were approached for targeting the same improvements at the global level. There was a high level of skepticism, as indicated by the statement of one of the senior managers: “Yes, the European results were impressive, but Europe was crap. You are welcome here, but you won’t find anything. We know our service agents, and our controls are watertight.”

After less than two weeks of analytics on the regional data in another region, there was enough evidence of fraud (and high warranty costs) leading to the implementation of improvement programs similar to that in Europe. This was then followed up with other regions of the globe. During the implementation, many of the local customer service managers were shocked when they noticed the scale of fraudulent activities done by their long-term partners. “I have been playing golf with this guy every Sunday for the past five years. I can’t believe he has been doing this to me,” said one customer service manager. Not to talk about the incidents, where the employees of the company were also part of the scheme, working in collusion with the local service agents.

WHAT HAS CHANGED DURING THE PAST TWENTY YEARS?

The first two authors have seen a number of similar cases and diverse ways that fraud occurred in the servicing of warranties and maintenance service contracts as part of their consulting activities. The imagination and ruthlessness of some of these companies/individuals in creating fraud has been very impressive—sadly, their behavior can only be described as unethical and antisocial. The surprising thing is, we have seen and heard many similar stories when working and discussing with our clients. The strategic importance of warranty management and the general maturity of the warranty profession in the industry have improved during the past 20 years. In the same way, the development of technology (mobility, cloud, analytics, social media, industrial Internet) has enabled new and more effective information system support for warranty management. Still, one hears and reads about people or companies (often accidentally) getting caught for cheating leading global brands. In the client discussions, the two most common statements are still (i) we believe there might be something wrong, but we don't know who, where, and what is the scale of the problem, and (ii) this is not a problem with us. Depending on the source, the estimates of warranty fraud are between 3 and 15 percent of the warranty costs. At the low end of the range, this translates to several billion US dollars globally.

WHY IS IT SO DIFFICULT?

Why is it so difficult for companies to recognize or do something about it? Why do we see the same gaps in control and same tricks applied we saw 15 years ago? In our opinion there are three fundamental reasons:

1. Lack of awareness of the problem
2. The sensitivity of the issue
3. Lack of skills

Lack of Awareness

If you don't have the right tools, processes, and skills to manage warranty fraud, you typically won't detect it. In many cases, the first two authors have seen companies having these in place at the high level, but the small flaws in the details have a critical impact. When you

don't detect fraud, you think it is not a problem, or if you believe it is a problem, you don't have a picture of the magnitude of the problem.

A magazine article explaining that this is an industrywide issue won't necessarily convince companies that it is their issue as well.

This leads to the vicious circle—not believing it is an issue leads to not investing in the capabilities, which leads to the issue staying under the radar. Although huge amounts of money are lost, it stays as a part of the total warranty expenditure and “the mandatory cost of doing business.”

Sensitivity of the Issue

“We don't want to talk about warranty fraud, since the term *fraud* implies intent, which is an overly harsh statement,” said one client executive. Although the methods discussed in this book are also effective in detecting and avoiding incidents resulting from sloppy procedures or unintentional mistakes, the main focus is on warranty fraud with criminal intent.

It is a challenging topic because people want to believe the best in others. Someone's word is generally respected, so accusing the other party of fraud or even asking for further evidence to clarify unclear issues is very difficult for most people.

Also, as the matter is so sensitive, companies are not willing to discuss it in public, so people can't hear and learn from the experiences of others. For this same reason, we have chosen to keep every case example anonymous (in many cases, that has also been a specific request from the people interviewed) unless the case example originates from a publicly available source.

Lack of Skills

Typically, most of warranty management training happens by participating in conferences, seminars, workshops, and learning on the job. All three authors have lectured at various conferences and conducted several workshops around the world. One of our interviewees (responsible for a global warranty management team in a global industrial equipment manufacturer) was quite frustrated about the lack of a solid training curriculum for a warranty management professional. “I am not looking for a one-day intro on a warranty management topic, but something more comprehensive—something