



Warranty
Chain
Management
Conference

2013





“From Horrors to Heroes: How Big Data and Software Tools are Transforming Warranty Management”

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About our Company



Zylog is a \$500M Global Company that provides:

IT Staff Augmentation (IT, Engineering, Executive Management, Retail and Service) – Zylog Manages a Database of 2.2 Million Resumes and has over 2,000 Contractors engaged across North America.

Software Applications – Zylog's 3,500+ programmers have developed best-in-class software applications including **FieldPower®**, **Silvanus360®**, **SilvanusPlus®** and **Claims Advantage** - Software for service order management, supporting in-warranty, extended warranty and COD transactions. Modules Include: Field Service Management with Optimized Routing and Dispatch, Depot Repair, Claims Adjudication, Reverse Logistics, Remanufacturing, Recycling and Value Recovery (all with Mobility features). Other solutions include Zylog's HRIS Software Suite for Applicant Tracking, Personnel and Contingent Workforce Management.

Service Delivery – Enterprise Level Implementation of IT Software and Service Solutions (SAP, Oracle, MS Dynamics and SharePoint). These Services include Enterprise Architecture Consulting and Design, Data Migration, Middleware, EDI/FTP/API Programming and Off-shoring.

Agenda



- **Headlines and Stories – Warranty Abuse, Scams & Gaffes**
 - Resellers/Dealers
 - Service Providers
 - Original Equipment Manufacturers (OEMs)
 - Parts Dealers
 - Third-Party Administrators (TPAs) - Extended Warranty
 - Retailers
 - Customers
- **Common Factors**
- **How Big Data and Software Tools are Transforming Warranty Management**
 - Eliminating Warranty Abuse through Data, Flags, Exception Reporting and Live Audits
 - Best Practices Applied

Headlines – Warranty Abuse, Scams & Gaffes – Resellers/Dealers



CHANNELNEWS

Australia

Information for sellers of technology

Massive Apple Warranty Scam Uncovered

By David Richards, October 30, 2008.

- Apple executives in the USA are investigating a **multi-million dollar warranty scam** in Australia. Under investigation is a major Apple reseller group whom it is alleged lodged warranty claims for MacBooks and other Apple devices knowing that they were false.

Headlines – Warranty Abuse, Scams & Gaffes – Resellers/Dealers



Jaguar dealership accused of warranty and incentive fraud – the Southeast Texas Record, August 27, 2009. By Michelle Massey, East Texas Bureau

- The North American Jaguar distributor believes a [REDACTED] dealership has operated under a plan of “controlled greed” since 2002 to defraud the distributor of **more than \$20 million**.
- The plaintiff states that [REDACTED], an authorized Jaguar dealership since 1999, has engaged in a systematic and pervasive fraud scheme that involved the sales, services and parts departments and has gone to great lengths to conceal their deception.

Stories – Warranty Abuse, Scams & Gaffes – Resellers/Dealers



Major OEM (PC & CE) – Service Executive

- Reseller bought hundreds of units and disassembled them for shipment to Latin America and Mexico.
- Reseller then claimed high% of units had defects, receiving payment for warranty claims and creating cross-section of parts to support service operations.
- Parts were shipped separately.
- As non-functional units, taxes/tariffs were minimal.
- Units were then reassembled.
- Reseller was busted when OEM performed on-site audit and confirmed no warranty actions were ever performed.

Stories – Warranty Abuse, Scams & Gaffes – Resellers/Dealers



OEM (PC) Service Executive

- OEM Monitor Recall 1988 – 1989 for various RGB Monitors - Blurring and Power Issues related to Power Supply and Fly-back Transformer Defects
- OEM Offers Replacements on Defective Monitors, over 100,000 units returned (through Resellers)
- A normal recall event or an historic gaff?

Stories – Warranty Abuse, Scams & Gaffes – Resellers/Dealers

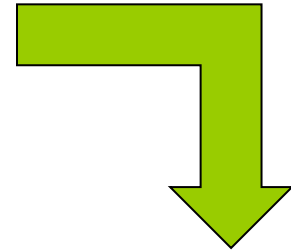


OEM Replaces Defective
Monitor with New
Monitor worth \$425

Stories – Warranty Abuse, Scams & Gaffes – Resellers/Dealers



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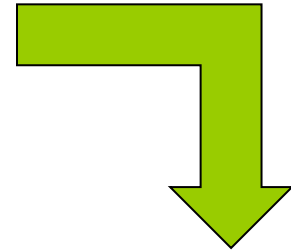


Defective Monitor
Returned to OEM
by Reseller
(Reseller Receives
New Monitor plus
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Stories – Warranty Abuse, Scams & Gaffes – Resellers/Dealers

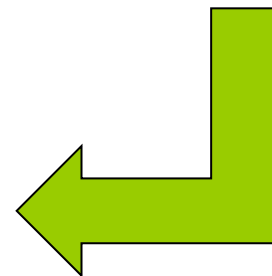


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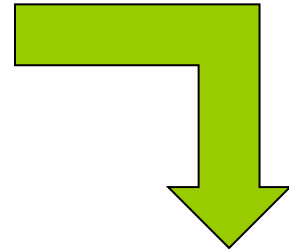
OEM sells Defective Monitor Sold to Scrap Dealers for \$25+



Stories – Warranty Abuse, Scams & Gaffes – Resellers/Dealers



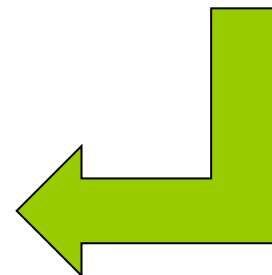
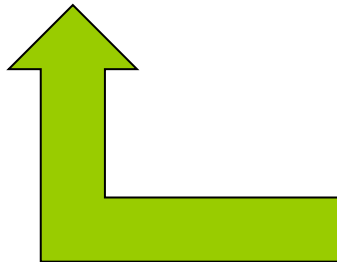
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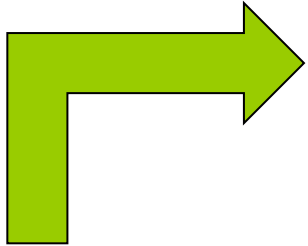
Scrap Dealers trade Defective Monitor for New Monitor (some Resellers actively buy Defective Monitors)

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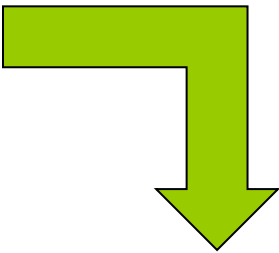
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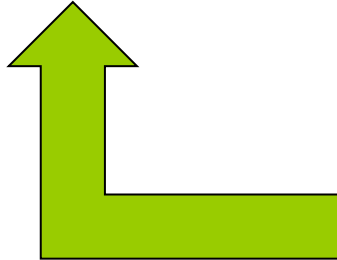
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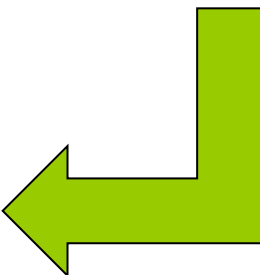
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OEM later learns some Units were Credited 13 Times

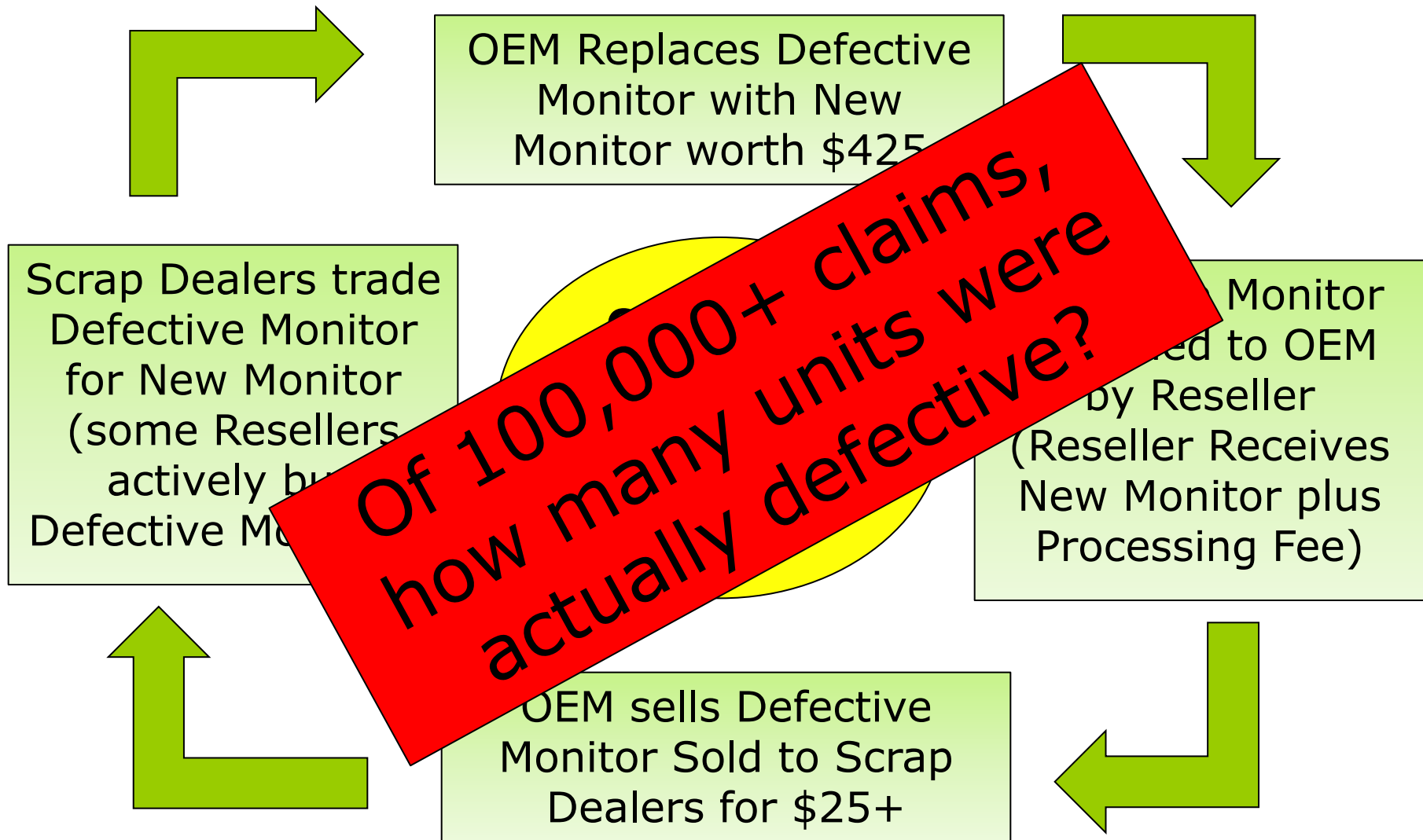
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Stories – Warranty Abuse, Scams & Gaffes – Resellers/Dealers



Headlines – Warranty Abuse, Scams & Gaffes – **Service Providers**

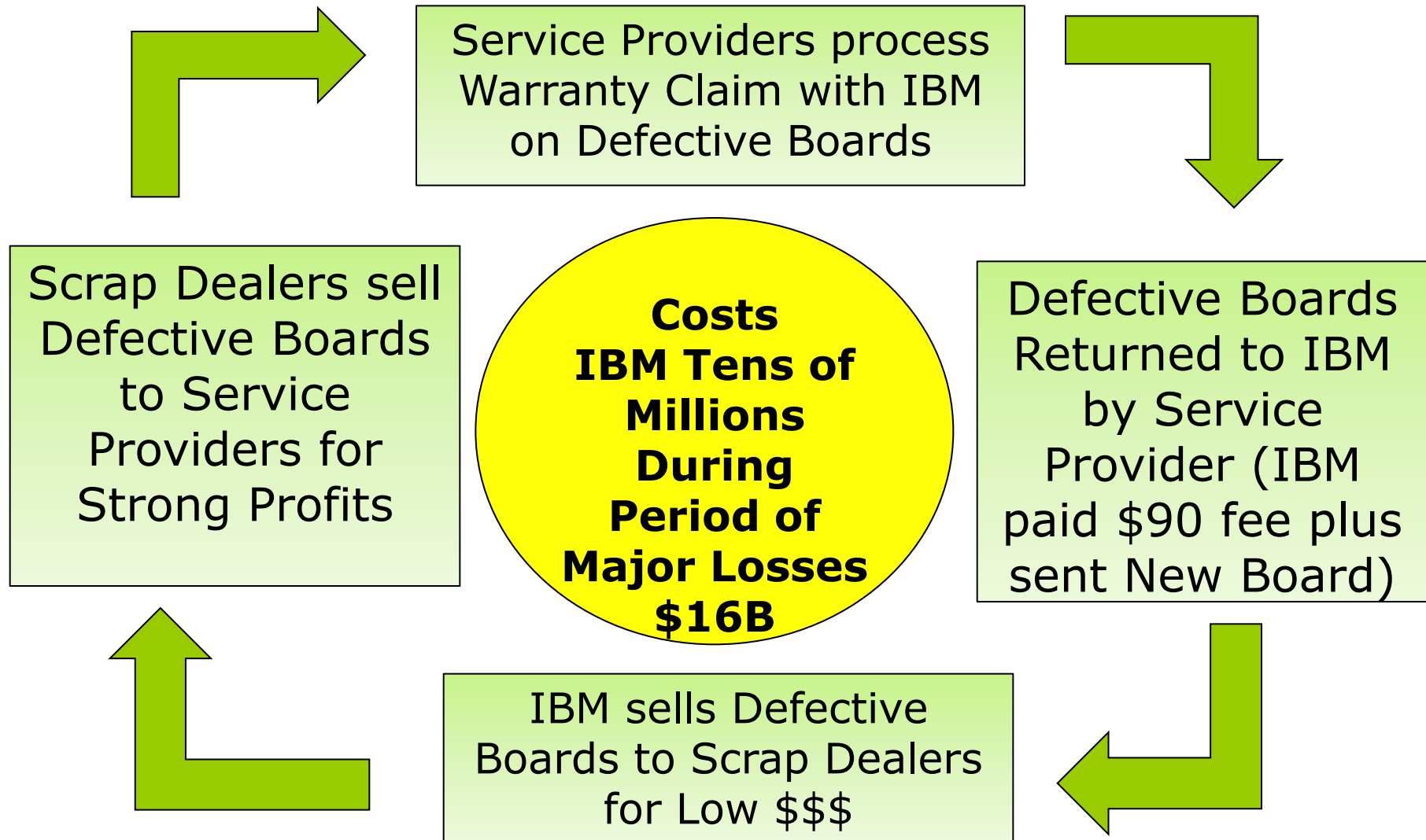


The New York Times By STEVE LOHR Published: September 30, 1993

COMPANY NEWS; IBM Helps Parts-Scam Investigators

Although the cost of the fraud to the International Business Machines Corporation is not known precisely, loss estimates range from "**tens of millions to hundreds of millions**" of dollars over a period of more than two years, according to one investigator.

Headlines – Warranty Abuse, Scams & Gaffes – **Service Providers**



Stories – Warranty Abuse, Scams & Gaffes – **Service Providers**



Major OEM (PC & CE) – Service Executive

False warranty claims were processed by Service Provider using:

- Obituaries (to identify customers)
- Service Provider acts as a walk-in customer at local retailers (to gather serial number/model number information of new machines)
- Service Provider was busted through Customer Satisfaction follow-ups.

Stories – Warranty Abuse, Scams & Gaffes – **Service Providers**



Major OEM (PC & CE) – Service Executive

- Service Provider had unusual percentage of claims (higher parts per unit defects and repeat serial number usage)
- Service parts were posted on EBay by technicians (parts were smuggled out in scrap boxes and recovered in dumpster)
- New owner was not aware of technicians activities but agreed to make restitution to OEM

Headlines – Warranty Abuse, Scams & Gaffes - **OEMs**



Packard Bell Reaches \$5 Million Settlement

by CNET News.com Staff September 6, 1996

Packard Bell agreed to pay more than \$5 million as part of a multistate and federal settlement over allegations the computer maker sold previously **used components in "new" computers**, the company announced today.

Stories – Warranty Abuse, Scams & Gaffes – **Parts Dealers**



Industry Service Executive

- Hard Drives Warranted for 1 year but covered by 3 Year ODM (Original Device Mfg) Warranty – i.e. Seagate
- Most Retailers didn't realize there was another Warranty available on Hard Drives (but Parts Dealers know)
- Parts dealers buy Defective Hard Drive Cores for \$5
- Parts Dealers Process Warranty on Hard Drives and Receive Free Replacements from ODM (not OEM)
- Parts Dealers sell Refurbished Drives for up to 80% of New Hard Drive Price.
- Same Process and Criteria works on other Parts – Software, Accessories, Processors, Audio and Video Cards.
- **Some in Channel figure this out but still charge Customers for Part Replacements after 1 year PC Warranty Ends.**

Headlines – Warranty Abuse, Scams & Gaffes - **TPAs**



State reaches Huge Settlement with Bogus Warranty Company

by Travis Pittman, King 5 News, **July 19, 2012**

Washington, Oregon, Idaho and nine other states have reached a multi-million dollar settlement with a bankrupt vehicle service contract dealer accused of misleading customers.

Thousands of Northwest residents who bought auto warranties from [REDACTED] could be in line for some of the money, according to the Washington State Attorney General's Office. The settlement is in addition to an earlier deal with service contract provider [REDACTED]. Attorneys general alleged [REDACTED] financially benefitted from [REDACTED] practices. It creates what the AG's office calls a \$[REDACTED] million Consumer Restitution Fund.

Stories – Warranty Abuse, Scams & Gaffes - **Retailer**



TPA – Service Executive

- Extended warranty contracts sold by regional retailer but for every 20 contracts sold, retailer pocketed money for 15 and filed only 5 contracts.
- When claims came in, retailer used 5 valid contracts to process claims.
- Retailer was caught by audit of TPA contracts on-site and disproportionate claims percentages.

Stories – Warranty Abuse, Scams & Gaffes - **Retailer**



TPA – Service Executive

- TPA did not track serial numbers of covered units at Point of Sale, tracking was by Customer and model.
- Service manager at retailer creatively applied non-covered customer “walk-in” repairs, to valid TPA contracts for the same unit.
- Service manager pocketed COD repair fees paid by customer (for non-covered unit).
- Service manager was caught after a direct customer satisfaction follow-up with TPA customer.

Stories – Warranty Abuse, Scams & Gaffes - **Customers**



Retailer (PC) – Service Executive

- Retailer was Self-Funded for Extended Warranty
- Customer Purchases Ten Notebook Computers but takes out Extended Warranty Plan on only One Unit
- Customer files numerous claims on Defective PC with Retailer (for post-warranty defects)
- System Board was Replaced 3 Times, LCD 2 Times and Hard Drive 1 Time over 18 Month Period.
- Finally was identified as Abuse when Company identified Serial Number of last Defective System Board didn't match Replaced System Board.

Common Factors

- Warranty Abuse is like water seeking its level, unless it's properly controlled it will find its way around most obstacles, routing through weaknesses in any system.



Common Factors



Weaknesses in the System may include:

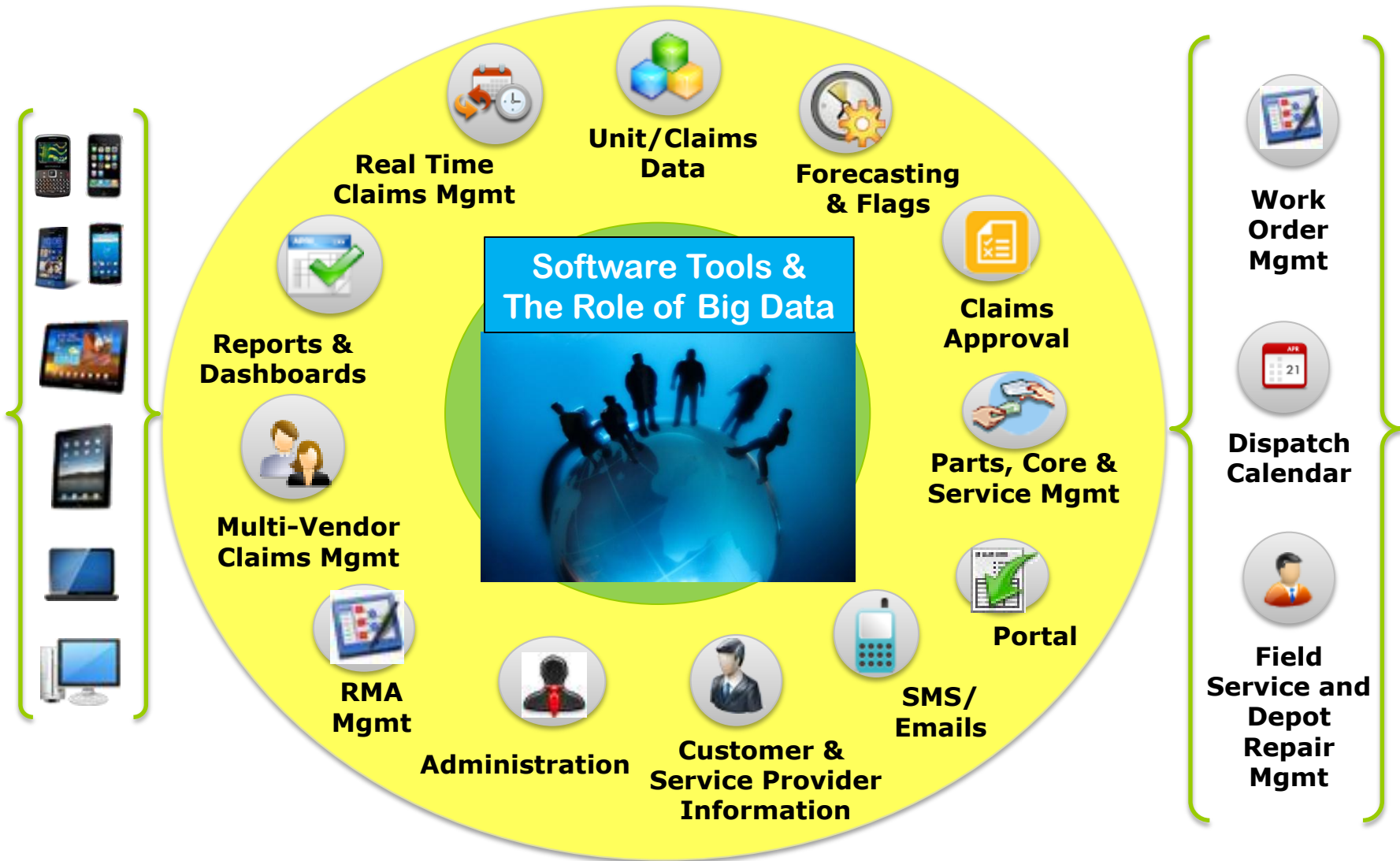
- **Infrastructure:** Lack of defined warranty terms, pre-approval process, challenges to diagnostics or data provided by service provider.
- **Inspection Process:** Weakness in entitlement verification (verifying the customer, the product, the serial number, the contract type and service provider). Inability of processes to identify areas of pressure/concern (known areas of fraud) returned parts and cores.
- **Response:** Ability to identify or respond to warning signs.

How Big Data and Software Tools are Transforming Warranty Management



- Big Data (System) should capture Failures (by customer), number of claims by customer and serial number, service provider ID, tech ID, diagnosed failures, replacement parts requested and used, returns of unused parts and cores, average failures by product model, failure type, service provider and customer.
- Convert from Reactive to Proactive mode.
- Flags should be set to identify anomalies on claims, (shotgun) tech diagnostics and claim rates/types above normal levels.
- Reporting – algorithms set triggers to identify anomalies
- Challenges should be made while claims are in process (at entitlement notification and within service window – <3 days)
- Random “active” audits should be performed on flagged Claims, Resellers and Service Providers.
- Total Percentages and costs of Claims as Percentage of Contracts (or Total Products Sold)

How Big Data and Software Tools are Transforming Warranty Management



Lessons from NYC



Lessons from NYC





Lessons from NYC

- Rudy Giuliani - Apathy fosters an environment for crime. Pay attention to the small stuff, it shows you care about everything.
- For NYC Police this meant:
 - Graffiti
 - Vagrants
 - Squeegee men
 - Turnstile jumpers
- Major crimes dropped by over 50% in eight year term

Best Practices Applied



- Pay attention to the details, it shows you care about everything. It deters those that might consider an unauthorized action or abusive practice.
- Require core returns on repairable and high \$ parts.
- OEMs – Use alpha-numeric non-standard and non-linear serialization process for parts and units. Key codes limited to a few executives. Reduces ability of counterfeiters to produce serialized parts/units.
- Take lesson from secondary market (invisible tags).
- OEMs and TPAs – Establish clear communicated guidelines, expectations, processes and policies.
- Track repaired units and replacement parts by serial numbers.



Best Practices Applied

- Online, pre-approval for warranty entitlement validation. This ensures payment to Service Provider, while providing the opportunity for intervention and challenge.
- Use active data capture of service event information, diagnostics, parts requested and customer information.
- Use Exception Reports to Capture and Challenge Warranty Anomalies.
- Perform active “live” audits by phone and site visits
- Challenges should be made while claims are in process (at entitlement or within service window – 2/3 days)
- Perform Closed-loop (Random and Flagged) Auditing through Site Audits and Customer Satisfaction Surveys
- **Invest in Better Software Systems and Data Capture**

Questions?



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