Cooperating with Customers on Warranty & Reverse Logistics: Taking the Pain Out of Warranty Returns

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About the AASA Special Report: Cooperating with Customers on Warranty & Reverse Logistics

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Introduction: Framing the Issue of Preventable Warranty Returns

The North American motor vehicle supplier industry is our nation’s largest manufacturing sector – and the automotive aftermarket is a large and stable part of the industry, anticipating a compound annual growth rate of 3.6 percent through 2018.

However, the entire automotive aftermarket continues to grapple with the issue of preventable warranty returns -- products returned through the supply chain with alleged quality issues. Surveys of the Automotive Aftermarket Suppliers Association’s (AASA) supplier companies indicate that on average only 2.5 percent of the product was found to have actual quality issues.

AASA’s supplier members continue to identify preventable warranty returns as a major “pain point.” For service providers, warranty work often means lost business – jobs that consume technician time and bay space that could be spent generating profits. For both suppliers and distributors, the handling of product several times is counterproductive and costly.

In addition to addressing the issue of preventable warranty returns, the aftermarket is in urgent need of a solution to standardize and integrate an efficient process for reverse logistics that reduces the financial impact to all involved. AASA has produced this Special Report to review the ways the association is working with aftermarket supply chain partners to address preventable warranty returns and, in conjunction with logistics expert UPS, to present reverse logistics solutions which take the pain out of warranty returns.

Industry Overview

The Automotive Industry: ‘Moving America Forward’

Motor vehicle suppliers manufacture or remanufacture components and systems for use in motor vehicles and equipment in the light vehicle and heavy-duty, on- and off-highway commercial vehicle markets for the original equipment and aftermarket industries. It is the nation’s largest manufacturing sector with total employment impact of 3.62 million employees. As noted in the Motor & Equipment Manufacturers Association’s (MEMA) industry impact study, “Moving America Forward,” for every direct job in the motor vehicle supplier industry, another five jobs are created.

The 3.62 million total employees supported by this industry generate over $220 billion in wages and income. This represents 2.6 percent of all U.S. wages and salaries paid in 2012. This industry also generates nearly $355 billion in GDP contribution, which is 2.3 percent of the total U.S. GDP.
The Automotive Aftermarket Segment: Industry of the Future

The U.S. aftermarket represents a $238 billion opportunity and is forecasted to show continual, steady growth. The global installed base – the total light, medium and heavy duty vehicles and the larger off-highway aftermarket – offers an additional $600+ billion parts opportunity.

The North America aftermarket is a large and stable market. According to the 2015 Joint Channel Forecast Model produced jointly by AASA, IHS and the Auto Care Association, the aftermarket is expected to increase nearly $38 billion by 2018, from $246.7 billion in 2014 to $284.3 billion – a compound annual growth rate of 3.6 percent.

One of the key aftermarket drivers is the average vehicle age in the U.S., which continues to grow and is currently at 11.5 years. Unemployment is returning pre-recession levels, helping to drive motorists’ demand and driving habits. Gas prices may be reaching a new normal, leading to miles driven levels exceeding pre-recession milestones. Pent-up demand for vehicle maintenance and repairs remains – the “2015 AASA Automotive Aftermarket Status Report” estimates unperformed maintenance at more than $66 billion.

Perhaps the most important growth factor impacting the aftermarket is its emergence as a technology industry. In addition to future technologies such as advanced driver assistance and self-driving vehicles, the power of real time connectivity using hand-held devices is already impacting the automotive aftermarket and the auto repair process. Consumers can learn online about repair issues and problem solving, search for possible product and brand solutions, compare pricing and alternatives, read reviews, and find a shop to schedule the work.
Industry Pain Point: Warranty Returns Affect Everyone

When addressing preventable warranty returns in the aftermarket, it is vital to understand distribution in the sector. As illustrated below, the aftermarket’s channels of distribution are complex with multiple partners – and partners which play multiple roles within the chain.

The traditional “independent” channel of three-step or two-step distribution – where products flow from the manufacturer to the warehouse distributor to the jobber to the repair shop, or from the manufacturer to the warehouse distributor to the repair shop directly, eliminating the jobber – still exists. The retail channel flows products from the manufacturer to stores or specialty service shops to the repair shop or vehicle owner. Original equipment service (OES) and dealerships form another channel, where OES/dealer products flow from the OE manufacturer to the dealer to the vehicle owner. Finally, the Internet is causing further disruptions in the distribution channels/models – and its long-term impact is still emerging.

![Aftermarket Channels of Distribution Diagram](source: Northwood University and AASA Analysis)
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Warranty returns impact all of these aftermarket channels. According to respondents of 2013 annual AASA Pulse survey, North American parts suppliers experience on average a warranty return rate of 3 percent of their annual sales. With aftermarket forecasted parts sales at $135 billion at retail; approximately **$3.5 billion** in credit is issued by manufacturers for alleged defective product annually. This figure only includes credit issued for parts and does not include any compensated labor time as the result of a truly defective product.

Suppliers, distributors and service providers also realize “soft costs” such as transportation of the alleged defective product, time spent by the quality department to evaluate the part and the headcount to process the claims. Supplier respondents to the AASA Barometer stated that these soft costs on average added an additional 10 percent to their overall warranty return expenses further reducing industry profits by $400 million for a total exposure of $3.9 billion.

**Select Supplier's Warranty Returns as Percent of Sales - 2014**

- 6.1% – 20.0%
- 5.1% - 6.0%
- 4.1% - 5.0%
- 3.1% - 4.0%
- 2.1% - 3.0%
- 1.6% - 2.0%
- 1.1% - 1.5%
- 0.1% - 1.0%
- 0%

Source: 2015 AASA Supplier Benchmarking Survey
Service Professionals: Front Line of the Aftermarket

For service providers in particular, warranty work often means lost business. The dreaded “comeback” takes up technician time and bay space that could be better spent generating profits.

In 2014, AASA conducted a landmark survey of service providers in collaboration with the Automotive Service Association (ASA): 2014 Parts Warranty and Labor Claims Report. This joint survey showed that service professionals and suppliers share common ground on their needs and concerns regarding returns and labor claims.

For service professionals, part returns and labor claims are a serious roadblock to their productivity and efficiency. Minimizing returns and claims is a profit savings opportunity, not only for technicians but for distributors and suppliers as well. Labor claims are a hot button for service technicians, as the majority of them view these claims as lost wages and poor use of their time.

Next Steps

The opportunity exists for the entire supply chain to reduce preventable warranty returns through industry cooperation and to streamline return process using solutions for standardized and integrated reverse logistics.
UPS: Taking the Pain Out of Warranty Returns

Solutions for Standardized and Integrated Reverse Logistics

Some parts and components will always need to be returned back through the aftermarket supply chain. These returns do not have to be just “the cost of doing business” and a drag on the bottom line – if handled efficiently. The key is a good reverse logistics process which can actually add value to the bottom line.

UPS works with aftermarket suppliers and their channel partners to create efficient processes for the return of automotive parts and components. Reverse logistics options can assist the automotive aftermarket in reclaiming more value by:

- Ensuring compliance by controlling speed and cost of inbound shipments
- Minimizing mistaken return shipments to the wrong warehouses or repair centers
- Creating and delivering commercial invoices with return labels to international customers
- Forecasting volume and adjust staffing around inbound returns
- Linking shipment information directly into customer service or warehouse operations
- Maximizing fast recovery of high-value goods, before they become obsolete

UPS® Returns can assist suppliers and channel partners better serve their customers within the aftermarket supply chain by streamlining the return process. UPS® Returns offers flexibility in return shipments through options to include labels in the original shipment, through the mail, via e-mail or self-service printing from the Web.

UPS Returns® Exchange allows a UPS driver to deliver a replacement part and pick up a like item during the same visit. This saves a technician time in repairing a customer’s car and assists the shop owner in utilizing valuable bay space more efficiently.

With UPS Returns Plus®, UPS will pick up an item at the customer’s location, making up to three attempts depending on the service level – ensuring that the right part is at the right place at the right time.
Below are two scenarios demonstrating how UPS reverse logistics solutions can help aftermarket supply chain partners:

**Scenario #1:** AAA Parts Manufacturer supplies oil filters to BCD Warehouse, which in turn sells to Big City Parts Store where Joe’s Garage buys its parts. With a car in the bay for an oil change, the technician at Joe’s finds that the oil filter needed has been damaged in shipment. Big City Parts Store is able to use the UPS Returns® Exchange provided through a cooperative effort by AAA Parts and BCD Warehouse. In one stop, Joe’s Garage gets a new oil filter and the damaged oil filter is returned directly to AAA Parts. The customer gets his car back on time and work continues to flow through the bays at Joe’s Garage.

**Scenario #2:** AAA Parts also supplies air filters to BCD Warehouse. When inventorying its latest shipment from AAA, BCD discovers that it received a case of air filters that are the wrong size. Since AAA uses UPS® Returns, it can e-mail BCD a return label. The wrong filters are returned immediately and correct shipment is scheduled.

**Key Takeaways: Keep Customers Happy and Increase Efficiency**

UPS has a dedicated solutions web portal with more options for streamlining reverse logistics. Some key takeaways include:

**Keep Profiting from Existing Inventory**
Don't let goods sit in shops or warehouses. Turn them into profits by getting them serviced, repaired, and back into inventory as fast as possible using UPS’s advanced technology and Web-enabled return labels. Faster turnaround also builds customer loyalty.

**Make Returns and Repairs Easy for Customers**
End users and consumers appreciate companies that work in their favor, and implementing a smooth returns system benefits them while boosting suppliers’ performance.

**Get More Return on Returns**
Automating returns enables customers to make return requests online. Returns can become as efficient to process as customer orders. UPS offers options for automotive aftermarket customers who want to develop and host their own solution (UPS Developer Kit Shipping API) or for those who prefer a hosted, pre-built solution (UPS Ready®).
Conclusion: Addressing the Issue of Preventable Warranty

AASA is committed to addressing warranty returns in the aftermarket supply chain. One important step is reaching out to logistics expert UPS to publish this Special Report for AASA members and the entire aftermarket supply chain to present reverse logistics solutions that add value for channel partners.

AASA also is working with aftermarket supply chain partners towards a long-term solution to preventable warranty returns. In 2014, AASA opened its task force to representatives of ASA. Together, these supplier executives, service professionals and channel partners are working toward the common goal of reducing preventable returns.

The AASA / ASA Warranty Task Force is focused on:
- Education throughout the entire supply chain regarding the opportunities to reduce logistical costs and headcount associated with warranty returns with the assistance of solution providers such as UPS
- Engagement of service providers in training and education programs provided by suppliers
- Raising awareness of shop owners on the significant financial ramifications of preventable warranty to their business

The AASA Know Your Parts® industry awareness and education campaign is spearheading much of the Task Force’s projects, specifically through its current micro campaign focused on the high warranty return area of rotating electrical parts. The Know Your Parts “Starting & Charging” campaign promotes complete diagnosis of rotating electrical work to pinpoint the correct repair needed. More information, including an interactive diagnostic video, is available online at www.kypgenius.com.

AASA (www.aftermarketsuppliers.org) exclusively serves manufacturers of aftermarket components, tools and equipment, and related products which support 710,000 employees in the United States. “AASA, The Voice for the Automotive Aftermarket Suppliers

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