

Warranty principles in the automotive industry



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Warrant as an instrument to achieving agreeable relationships

This paper is a statement on what automotive suppliers consider as the most efficient way of managing Warranty. CLEPA considers that Warranty primarily should be used as an instrument to improve the quality and the durability of products. This paper has been drafted to provide a basis for fruitful discussions and agreeable relationships between the OEMs, Tier1s and suppliers throughout the automotive industry.

This paper is not binding and it does not make any recommendations regarding the use of specific Warranty Terms and Conditions. These terms must be negotiated individually and independently between each CLEPA member and its customers and suppliers.

This paper does not discuss the terms and costs for a vehicle recall action or service campaign since this is not a warranty issue.

1. Warranty principles and issues

- In order to ensure that clear rules are in place once a warranty issue arises, it is important that warranty agreements between the parties are connected to, and finalised as part of, the contract.
- Warranty agreements should be driven by the **objective to ensure quality, reliability improvement and early problem resolution** and should not primarily be used as a financial cost recovery process. The involvement of third parties who manage the warranty process and whose reimbursement is based on financial recovery should, therefore, be avoided.
- Warranty agreements should be **clear and unambiguous**.
- If **extended warranties**, over and above the customer warranty sold to the consumer or provided by the dealer organisation through an insurer, shall be extended to the supplier, this should be stated expressly in the warranty agreement.
- To avoid disputes about the validity of changes in warranty terms and conditions, the warranty agreement should provide that such changes are to be agreed mutually between the parties in writing.
- Disputes about the scope of the supplier's warranty obligations can be avoided by describing, in the warranty agreement, the specific product always together with the application and the proper use.

- The warranty agreement should contain a **clear definition of a warranty case** (e.g., a failure to meet the agreed specification, where such failure has caused a defect in the product delivered).
- The warranty agreement should specify when the **warranty period** starts (e.g., from the date of delivery of the product to the manufacturer or on the date of registration/ change of ownership). It is also useful to clarify in the agreement whether the maximum warranty includes the period between the delivery of the product and the date of registration or change of ownership.
- Supportive and **open communication, together with fairness** between all parties, is required to deliver effective root cause analysis and timely implementation of solutions.

2. Warranty process

This chapter has taken into consideration the official publications from AIAG-CQI 14 as well as the VDA field failure analysis procedure.¹

- **Availability of warranty returns** – customers' commitment to collect suspect and failed warranty parts and make these available to the Supplier to undertake analysis and reporting. The warranty parts must be returned regularly and in a timely manner (which should be compatible with timelines used in the industry) and in sufficient quantities to form a statistically significant unfiltered representative sample of repairs done in the market. If required and where applicable, matching parts should be provided in order to identify warranty failure modes to enable corrective actions.
- **Availability of warranty data** – In order to complete root cause analysis, additional information may be required with respect to the application of the suspect defective part and the environment within the system. In some circumstances, vehicle service history and changes to vehicles and applications should be available to understand the circumstances of the defect and the real root cause.
- **Corrective action implementation** – The customer and supplier shall take prompt and effective action on concerns they are responsible.
- **Information from dealers** – It is necessary to make correct and complete information available to Suppliers via customers in order to understand the circumstances of the defect and the real root cause of the failure.
- **Access to dealers** in conjunction with the OEM is not the norm but can be most

¹ Released before this document

helpful to find the root cause for removal of O.K. parts after analyses by changing the service instructions to the dealers. but a proper and correct diagnosis is required in order to achieve a 'first time fix', minimise warranty repair costs, reduce unnecessary removals, minimise No Trouble Found (NTF) and assist in root cause investigation.²

- **Supplier reporting on warranty parts** – The supplier shall analyse and report the returned parts. Problem acknowledgement and corrective actions are to be verified where applicable. Suppliers are required to report findings of an analysis of warranty parts via input into specific recording systems as agreed with the customer. Case by case. Depends on the complexity of the supply chain. Majority of case, can be address in 20 working days, longer lead time depending on the complexity of the products.
- To improve the efficiency of the warranty analysis, suppliers need access to the relevant data and potentially parts. (e.g. DTC and surrounding information: Defect trouble code)

3. Warranty data

- **Warranty data management introduction** should be made available on a digital basis to Suppliers in a timely manner. Suppliers should have full access to warranty data held by the OEM.
- It is desirable that **access to warranty data is made available free of charge** as it is a prerequisite to observe product behaviour in the field. If the customer wishes to charge the supplier for granting access to warranty data held by it, the Warranty Agreement should state this clearly and should specify the level of fees that the customer can charge.
- To facilitate complete root cause analysis **warranty data must be comprehensive, consistent, uniform and accurate** to facilitate effective warranty problem solving and should include historical warranty data and associated additional data for example vehicle volumes etc.
- To facilitate rapid data analysis, **defect coding should be as specific as possible** and supported by the written description (verbatim). It is therefore beneficial to harmonise warranty data exchange between Suppliers and Customers through the development of common data formats/standards.
- Data on parts not returned to the supplier should be provided on a monthly basis.

² O.K. parts are No Trouble Found (NTF) parts

4. Warranty management

4.1. Supplier warranty period

- Warranty agreements are necessary to define, at a minimum: warranty period; warranty failure criteria and cost elements.
- Quality/Reliability (Q/R) targets do not define warranty period. The warranty period (time and/or mileage) is as stated in the warranty agreement. To establish separately agreed Q/R targets between the supplier and the OEM, and to achieve a reliability/confidence level compatible with the targets, there should be a reference to the design (i.e. materials, technical solution, interfaces, environment etc.). Q/R targets and associated reliability/confidence levels are typically demonstrated in an agreed validation program.
- The Directive 1999/44/EC (May 25, 1999) applies only to sales to consumers. Companies are not consumers. The mandatory 2 years warranty period applies only to the relationship between the consumer and the seller. In agreements between the parties of the supply chain, this period can be reduced by agreement.

4.2. Cost structure breakdown

- The warranty agreement should specify how the total warranty costs and the different cost elements are calculated.
- **Parts price** – Unless agreed otherwise, this is the supplier's selling price to the customer.
- **Labour** – The agreement should state the agreed labour rates and the agreed Remove & Refit time. The parties can agree to limit Remove & Refit time to the time of the 'typical' application.
- **Handling** – The agreement should state the agreed percentage/amount of the parts price. The parties can agree that this percentage/amount should be based on standard proven logistics and administrative costs.
- **Consequential costs**³ – The agreement should state to what extent consequential costs can be included. The parties can agree to limit the costs that can be included

³ The terms consequential, direct and foreseeable are not as used in terms of liability laws. In the context of this paper these terms are related to warranty costs.

to direct and foreseeable costs and/or to an agreed cap.

4.3. Financial resolution of claims

- **Warranty costs** – Unless agreed otherwise between the parties, customers are required to verify the validity and consistency of warranty expenses reimbursed through its network and to make available verification paperwork to suppliers on request.
- **Determining supplier responsibility** – To determine supplier responsibilities, the customer shall forward a statistically relevant quantity of exchanged parts representing the total claimed population.

5. Services

It is advisable that the warranty agreement also sets out any specific requirements regarding the provision of warranty services like response times, replacements, etc.

General remarks

Experience has shown that the application of the following principles typically allows for a speedy and effective resolution of warranty cases:

- Costs to be paid by the supplier take into account the supplier's economic situation, the nature, scope and duration of the business relationship.
- Possible causative or responsible contributions by the purchaser and a particularly disadvantageous situation of installation of the suppliers are taken into due consideration.
- Damages, cost and expenditures which shall be paid by the supplier are proportional to the value of part being delivered.
- Warranty costs are visible and transparent throughout the supply chain.
- Any debiting and or cost deduction are subject to agreement between the parties.
- To ensure the trust of the customer into the analysis system of the supplier it is important to agree on the analysis process (e.g. VDA Field Failure Analysis or AIAG CQI 14). Therefore, no cost-sharing should be agreed before a joint NTF exercise is accomplished to eliminate failures within the process or system.

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About CLEPA

CLEPA, the European Association of Automotive Suppliers, represents over 3,000 companies supplying state-of-the-art components and innovative technologies for safe, smart, and sustainable mobility.

CLEPA brings together over 120 global suppliers of car parts, systems, and modules and more than 20 national trade associations and European sector associations. CLEPA is the voice of the EU automotive supplier industry linking the sector to policy makers.



The automotive sector accounts for **30% of R&D** in the EU, making it the number one investor.



European automotive suppliers invest over **30 billion euros** yearly in research and development.



Automotive suppliers register over **39,000 new patents** each year.



Automotive suppliers in Europe generate **1.7 million** direct jobs.

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