

*This excerpt has been adapted from **Beyond Warranty: Building Your Referral Business***

Warranty Reports

The insight that warranty departments can offer is too valuable for builders to overlook. Well-conceived and effectively used warranty reports help increase customer satisfaction and decrease repair costs. The best way to put this resource to good use is through regular review of accurate and relevant reports. All reporting systems should be designed to measure precisely what needs to be measured and keep everyone informed. Responsible action can be expected in return. If knowledge is power, it is also responsibility.

Benefits

Objective reports help you convince others where changes are necessary. (Yelling does not work well, nor are its effects lasting.) The full impact begins when you have accumulated a convincing amount of data and patterns appear. For instance—

- Product performance influences future design and purchasing decisions.
- Repair data calls attention to inadequate supervision during construction.
- Warranty staff work loads are judged more accurately.
- Problems with trades or suppliers can be quantified, making resolution easier.
- If buyer expectations conflict with the builder's warranty commitment, this shows up in reports of items denied.

Essential Reports

The nature of warranty work lends itself to many types of reports. Begin with the essentials: number, nature, and completion of warranty items. Certainly costs need to be examined. Once these basics are mastered, you may want to add other subjects to your tracking routine. Several are suggested in this chapter and you will think of still more.

Number of Warranty Items

Warranty needs an “early warning system”—a set of criteria that alert personnel when warranty work is heading for trouble. The first piece of this has to do with the volume of warranty work going through your system.

Calculate the number of warranty service requests and total items you would receive if every home owner used your system exactly as you describe it in your home owner guide. For example, if you build 30 homes a year and your procedures include two standard checkpoints, one at 60 days and another at 11 months that system would generate 60 lists per year, or an average of 5 a month. Add 10 to 15 percent to allow for emergencies, home owners (or homes) that need extra attention, and reports of items from “out of warranty” home owners. For this example, that would mean 69 lists.

Considering the size and complexity of your product, how many warranty items per list do you believe to be reasonable? If you believe 6 items per list seems to you to be a reasonable average number of items, you should anticipate warranty addressing 414 items per year (69 lists x 6 items)

or 36 per month. If your records shows the volume of warranty work is at 976 items per year (over 80 per month), your early warning system alerts you to look for the causes.

As discussed in the following pages, your early warning system should have other criteria besides volume of items. However, volume is the most critical for most builders. In fact, alarms from the other areas are generally the result of too much volume.

Nature of Warranty Items

Builders often analyze repair work based on the number of outstanding lists. "We have 21 outstanding lists." Interesting, but insufficient. You cannot tell how much work those lists represent, how much of it has been completed, or anything about the nature of the work needed. Are they minor? Structural? Cosmetic? Material failure? Workmanship issue? Natural causes? Nor can you decipher how many items are purely warranty and how many are courtesy repairs.

To make use of warranty repair data, you need granular information. For example, when a builder says "We have 108 work orders containing 417 items; 9 percent are cabinet problems, 11 percent are floor covering..." a clearer picture comes into focus. With objective information, you can select appropriate improvement targets, develop effective strategies, and make convincing presentations to those whose cooperation you need to eliminate recurring items. Reports based on floor plan, individual trades, particular home owners, specific subdivisions, or a range of dates—among other sort criteria—should be available. Share such information with trades and ask them how they might eliminate recurring items.

Completion of Warranty Items

While everyone agrees that the best service is not needing service, then next best choice is fast, courteous, and effective attention. Most builders today recognize that timely response is a critical component of home owner satisfaction. The traditional 30-day completion time is yielding to this pressure and 10 work days is becoming the common target. Besides studying the nature and number of warranty items, you should track completions. Accurate information on completion requires feedback from the trades. Return of the signed work order is the best method because this also provides documentation for the file.

With typical computer supported systems, a reports show the trade, the home owner, and a brief description of the items that the trade should correct. Warranty personnel make notes on the printed reports and these notes are used by the administrator to update the pending work report, usually on a weekly basis.

This same data can be sorted by trade. Each trade should receive response time feedback with comments. Consistent failure of one or two trades to meet your required response time must result in some action on the part of the company. Failure to do this sends a dangerous message. "We know these trades are slow but we are letting them get away with it." When you replace a trade whose poor performance has failed to improve after several months, this also sends a clear message.

Warranty Budget

For many years builders estimated warranty expense at .5 percent of the sales price of the home (\$500 for a \$100,000 home). In recent years that amount had increased to .6 or .7 percent—\$600 to \$700 for the same home. Some builders set aside as much as 1.5 or even 2 percent for service; this is more often to be true on higher priced homes. When warranty costs exceed the planned amount, look beneath the surface to discover the causes and work to eliminate them. Excessive warranty

costs result from one or more factors--

Poor Design or Purchasing Decisions. Electing to save \$45 per home by using a lesser quality material or method results in sweeping repairs and replacements during warranty. Worse, the damage to company image can take months or years to overcome.

Inadequate Supervision during Construction. Failure to walk homes and check the work of each trade builds a lot of warranty work into the product. This can be the fault of superintendents who lack construction knowledge, time management skills, or organized work habits. To be effective this effort must be supported with written checklists. Just as often, the cause is staffing at levels that make it physically impossible to walk every home as work occurs.

Delivery of Incomplete Homes and Failure to Complete the Orientation List. The first perfect home has yet to be built. Anyone can make a list if they are motivated. Home owners who are frustrated with slow/no service make such lists, and they are long. "Nit picky" items are more difficult to turn down when the house was not "right" to begin with.

Failure to Define Warranty Standards for Buyers. This leaves buyers to request what they think should be repaired. This can be improved through the effective use of a comprehensive home owner manual presented at contract.

Lack of Training of Warranty Reps. If warranty reps lack training either in the technical interpretation of the warranty standards or in how to say no to a customer, extra expense can result. The more technical understanding warranty reps have the more easily they can make correct decisions and explain these decisions to home owners.

Paying Trades for Warranty Work or Failure to Back Charge. Turnover of trades often results in a company paying a new trade to correct the former trade's errors. Builders also encounter extra expense when they neglect to levy appropriate back charges. This can occur when record keeping is incomplete. Some builders resist back charging out of a sense of friendship for their trades. While this is certainly the builder's business choice, it creates an inaccurate impression of warranty costs.

Inadequate Warranty Staff. Not all warranty items can be assigned to a trade. Fast response by a well-trained in-house service technician can be a warranty department's best defense against the outrageous lists that grow from slow or no attention.

Coding Errors. Approving bills with mistakes in calculations or for exaggerated amounts, or coding items to warranty when they should be coded to construction inflates the warranty budget.

Data Drives Change

As you analyze items, you may find more opportunities for improvement than you bargained for. You'll need a method of prioritizing to select appropriate targets for elimination.

- How frequently does the problem occur? Three percent of your homes? Forty-seven percent?
- What is correction cost in terms of administrative time and repair dollars?
- Is the hassle factor for the home owners high, medium, or low? Consider the number of appointments, dust, noise, inconvenience?
- What is the cost to prevent the problem during initial construction?

For example, if an item occurs in 41 percent of your home, is a serious nuisance to home owners, and costs \$187 to repair but costs \$81 to prevent up front, it is worth preventing. If an item shows up in 7 percent of the homes, takes one short visit and \$16 to repair, but costs \$48 to eliminate up front, you would probably continue to repair it. When you identify a worthy target, summarize your information in a concise memo and suggest a meeting to discuss the situation. Once a change

is approved, the next step is to implement it fully.

Two questions help you avoid pitfalls. "Who needs to know about this change?" and "What else must be done to carry this all the way through the system?" Check all possibilities, beginning with staff: purchasers, salespeople, accounting, drafts people, decorators, subcontractors, and superintendents. Information available in show homes and all documents also should be checked, including the contract, home owner guide, sales brochures, blueprints, and specification for trades.

Finally, consider whether any home buyers under contract will be surprised as a result of the change. Advising buyers of a change and explaining the reasons behind it before they discover it at the walk-through will prevent conflict. Often, the buyer will happily accept the change. If the buyer has an objection, however, it is better to resolve the issue prior to the closing.

Optional Reports

With the basics under control you may want to expand your report activities. Special reports might be produced temporarily, intermittently, or on a one time basis to gather details about a unique situation.

Denied Items

Tracking the work you agree to may seem like plenty to handle. However, studying warranty requests you deny can also be useful. For instance, if 43 out of 60 home owners ask for the same repair only to have it denied, that might be a good repair to provide. If providing the repair is impractical, look for a way to set buyer expectations more clearly in the beginning. Warranty staff can often identify a sales person who may need more training in aligning customer expectations. By taking note of which communities generate home owners with inappropriate expectations and the subject of those inaccurate expectations, warranty staff can provide insight that helps sales personnel refine their presentations to home buyers.

Hot Files

The potential lawsuit, the infamous home owner with a vile temper, a material failure affecting several homes, or a serious structural repair are examples of cases that might be assigned to hot file status. Review each of these situations with upper management (or the company owner), at least once a week.

Warranty Administration

One of the hidden delays in warranty work is administrative time. Contact home owners within one business day to set an inspection appointment or issue work orders within that same time frame if an inspection is unnecessary. Consider tracking—perhaps temporarily or intermittently—three administrative aspects of warranty work:

- Time from receipt of a service request to setting an inspection appointment
- Time from receipt of a service request to issuing work orders if an inspection is unnecessary
- Time from inspection appointment to issuing work orders

This offers another area where you can establish one or more early warning system criteria. The recommended response time for each of the activities listed above is between four hours and one business day. If any of them take longer, find out why.

Home Owner Emails and Calls

Some builders have found it helpful to track the number of emails and phone calls, broken down by their nature—

- Emergency reports
- Feedback about a trade or in-house service tech
- Complaint about the quality of work
- Complaint about a missed appointment
- Questions about the home—features, materials, colors, or so on
- Incomplete orientation items

If any particular category seems to generate an excessive number of contacts, investigation is in order.

Winter Work

In some climates, builders may close homes during the winter with exterior items incomplete. The promise to return in the spring to complete these can cause home owner hostility unless items are well tracked. Make this convenient by gathering winter work information from orientation forms and compiling a winter work list. At the appropriate time, use email, fax, phone calls, letters, or post cards to let the affected home owners know they have not been forgotten.

*Note: Figures illustrating many of the reports mentioned can be found in the complete book. **Beyond Warranty** is available form www.builderbooks.com.*