

Product Warranty – A Differentiator ..???

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Abstract

Product warranties have become an increasingly important aspect of after-sales service in the marketing of durable goods. Warranty reduces buyers perceived risk in post purchase scenario. It suggest that the product is backed up by after sales service and it is dependable. As the consumers are often heterogeneous in their valuation of warranty coverage, the sellers are observed to sell different levels of warranty coverage to different consumers in different product-market situation and thereby increase profits. The other role for warranties is to impress upon the customers the unobservable quality of the product. Warranties are effective in two situations, the first where the company or product is not well known and secondly the product quality is superior to the competitor. Many times warranties are used as differentiators by dealers at the point of sales. However, due to reasons of both short product and service life cycles of the products, the warranties may get redundant in near future.

Introduction

Michael Porter said product differentiation is a tool for competitive advantage in the highly competitive markets. The common differentiation parameters may be the product or service offerings i.e. the product augmentation through the value added services or offerings through product extensions. Product warranty is one of those differentiating parameters, which most of the service based products such as consumer durables or specialty / customized high value equipments is used for. It is used as a tool to attract the customer and create trust bond between the buyer and seller in product. Many marketers use warranties as augmented service to its core product offerings. In addition marketers do consider carefully a number of public policy issues and regulations involving acquiring or dropping the product, patent protection, product quality & safety and product warranties. The product quality and its operating defects can be well ascertained only after product is bought and put to use by the consumer. And hence the consumer needs to be protected for faulty post purchase product performance due to bad workmanship or poor product quality.

Role of Warranty

Warranties have become an increasingly important aspect of after-sales service in the marketing of durable goods. The warranty policy will create the trust in the customers about the basic service provided by the seller and thus they are not left high & dry in case of any product problems arising during its initial usage period. As the consumers are often heterogeneous in their valuation of warranty coverage , the sellers are observed to sell different levels of warranty coverage to different consumers in different product-market situation and thereby increase profits. The other role for warranties is to impress upon the customers the unobservable quality of the product. A long warranty can be used to signal better quality because high quality sellers have a cost advantage over low quality sellers in offering warranty protection. A high quality seller needs warranty policy to play both the above two roles simultaneously. If sellers have limited ability to use branding, reputation, or advertising to signal quality, warranty policy may be an effective option to signal quality information to buyers. In

addition, if a high quality seller wishes to signal with warranty policy, it may also face a heterogeneous market in which profits can be increased by selling different amounts of coverage to different customers.

Attributes of Product Quality

There are two components of quality, which customer is looking for in the product during its post purchase usage. One is resolvable attribute i.e any product defect which can be resolved during the product warranty period. The other one is unresolvable quality, which is beyond warranty period. If sellers have limited ability to use branding, reputation, or advertising to signal quality, warranty policy may be an effective option to signal quality information to buyers. In addition, if a high quality seller wishes to signal with warranty policy, it may also face a heterogeneous market in which profits can be increased by selling different amounts of coverage to different customers.

It is well known that during a customer's ownership experience, attribute-level satisfaction influences overall satisfaction with product quality. The drivers of satisfaction with product quality shift over time in different ways based on the attributes' resolvability. The resolvable attributes are those attributes that can be repaired and that are covered under the product's warranty (e.g. TV tube) and irresolvable attributes are those attributes that cannot be fixed or changed, regardless of warranty coverage, without the purchase of a new product (e.g. Size of TV screen). All attributes encounter a normal wear and tear over time, which can lead to a general decline in satisfaction. However, when owners are dissatisfied with something that can be fixed, they are likely to blame the manufacturer for not doing the better job, but when owners are dissatisfied with irresolvable attributes, they are likely to attribute their dissatisfaction to the inherent nature of the product and to learn to cope with the source of the frustration.

A seller wishes to sell a product with an optional extended warranty to a heterogeneous market with two types of buyers i.e. less and more risk averse. Buyers that are more risk averse place higher value on warranty protection. In this case, the seller chooses a base price and warranty for the product and a price for optional extended coverage because of the fact that the seller knows the quality of the product and the buyer does not. Thus sellers can set the warranty menus to maximize profit, when the only signal of quality to buyers are the prices and warranty coverage offered by competitors are inferior.

Legal Aspects

Legally speaking like product guarantee, product warranty is not stipulation associated with the contract between buyer and the seller. Guarantee is normally for the performance of the article/product is bought. However, warranty is for product workmanship and defects, which needs to be rectified or repaired within certain time frame after the buyer has made a complained for. Many manufacturers offer written warranties to convenience the customers for their product quality. To protect consumers in US, the Government has passed the Magnuson Warranty Act in 1975. The Act requires that full warranties meet certain minimum standard, including the repair "within a reasonable time and without charge" or replacement or full refunding if the product does not work "after a reasonable number of attempt" at repairs, otherwise a company must make it clear that it is offering limited warranty. The law

has led several manufacturers to switch from full warranty to limited warranty or otherwise drop warranties altogether as a marketing tool.

Warranties at Glance

Type of warranty	How Created	Description
Express warranty	Made by seller	Affirmation of the fact that the goods meet certain standards of quality description, performance, or condition
Implies warranty of merchantability	Implied by law and part of the contract unless specifically disclaimed by the seller	Implied that the goods : <ul style="list-style-type: none"> • Are fit for the ordinary purposes for which they are used • Are adequately contained , packaged and labeled • Conforms to any promise of affirmation of fact made on the container or labeled pass without objection in the trade • Meet a fair average or middle range of quality for fungible goods
Implied warranty of fitness for particular purpose	Implied by law and part of the contract unless disclaimed by seller	Implied that the goods are fit for the purpose for which the buyer or lessee acquired the goods if the seller or lessor <ol style="list-style-type: none"> (1) has reason to know the particular purpose for which the goods will be used and (2) makes a statement that the goods will serve that purpose and (3) the buyer relies on the statement and buys or leases the goods

(Source: David I.Baumer & J.C. Poindexter, 'Legal Environment of Business, McGraw-Hill Irwin, New York, 2004, pp249)

In Indian context there is no law toward product warranties. However, the Consumer Protection Act 1986, protects the consumers form defective products or services. The sale of defective products or not attending to customer's complaints on defective products by the manufacturers constitutes 'Unfair Trade Practices' and the manufacturer has to compensates for the loss to the consumer arising out of such products. Hence, in order to minimise risk towards heavy compensation to the consumer, the manufacturers offer the limited warranty for short period of one year.

Product Life Cycle vs. Product Service Cycle

In today's context the product life cycle is getting compressed due to technological advancement. The innovative organizations are killing their old product and developing new versions of the same with the added features to remain one step ahead of the rival so that copy cats will never catch them. One such example is INTEL with its 'Pentium' versions. Then the question arises, do such products, wherein the product life cycle is very short require warranty ? Against this there are products like consumer durable having fairy long service life. Such products require warranty support to keep them working during their working life. On the other hand, when there is little scope for differentiation on features or technology, for service based long service life products, the marketers look for the differentiators such as warranty. But in the societies which

adopted 'Throw Away' culture as their life style, the product warranty carries no meaning.

Promotional Tool

All sellers are offering product guarantee to promote sales. They are legally responsible for fulfilling a buyer's normal or reasonable expectations. Warranties are formal statements of expected product performance by manufacturer. Product under warranty can be returned to manufacturer or designated repair center for repair, replacement, or refund. Warranties whether expressed or implied are legally enforceable. Many sellers offer either general guarantee or specific guarantees. A company such as Proctor and Gamble promises general or complete satisfaction without being more specific " If you are not satisfied for any reason, return for replacement, exchange or refund. Other companies offer specific guarantees and in some cases extraordinary guarantees such as

- Khetan was the first ceiling fan manufacturer in India to offer seven years warranty. The competitors followed the steps in
- Hindustan Motors has announced a three-year and 50,000 km years. extended warranty offer for its Lancer cars to increase its sales
- Samsung India Electronics Ltd has come up with a special offer (for limited period). Samsung CTVs buyers would be entitled to an additional three-year warranty as against the one year normally offered. That means total warranty will be four years. .
- Establishing the Tavera's reliability General Motors India (GMI), has decided to offer a 5- year , 1.5 lakh km warranty on engine and a two-year 50,000 km overall warranty.
- Faber Heatkraft Industries Ltd, Kolkata producing and installing chimneys in kitchens offers lifetime warranty on their products to motivate the customers.
- LG refrigerators are covered under seven years product warranty.
- EID Parry India Ltd, for its 'Parrywares' the sanitary brand offers a 10 year warranty on its products and the complaints that are made within this period are attended to free of charge.
- Sharper Image, the Delhi based flooring solution company, marketing flooring products such as wooden laminate floors, wooden veneer floors, natural wooden parquet floors, vinyls and carpets, offers differentiated warranties of 15 to 25 years for residential use and 10-15 years for commercial use.

Conclusions

Warranty reduces buyers perceived risk in post purchase scenario. It suggest that the product is backed up by after sales service and it is dependable. This may enable the company to charge higher price than its competitors, who is not offering an equivalent guarantee. As an innovation, companies can find other ways to differentiate customer services. They can offer an improved product warranty or free maintenance contract. Warranties are effective in two situations, the first where the company or product is not well known and secondly the product quality is superior to the competitor. Many times warranties are used as differentiators by dealers at the point of sales. However, due to reasons of both short product and service life cycles of the products, the warranties may get redundant. This is because technology makes the product cheaper

and it also makes for faster obsolescence. There is no point in going for a product with extended warranty of five years and pay more price for that, when due to rapid space of technology change , it is getting upgraded within next two years.

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