

Warranty Self-Administration

Why a Cost-Reduction Focus Costs More

It is certainly a common practice (and desire) among builders to want to control costs relating to warranty administration. Some believe the best path to savings is through in-house administration as it eliminates dependence on external partners, providing greater control and efficiency through direct program oversight. Others, in the majority, prefer an outsourced model as it preserves third-party servicing and reputational credibility and does not require additional staff and infrastructure investments. The real question is: which provides the most beneficial and cost effective solution for builders?

In our experience, a focus primarily on cost reduction for warranty administration ultimately *costs* more long-term – not just in dollars expended but in business consequences that can negatively impact a builder’s overall strategy, market position and product sales.

Regardless of the approach, it is critical this service be performed in the most expeditious and cost effective manner possible. To ensure the best outcome for both the builder and its home buyers, it requires consideration (and mitigation) of several risk factors – besides cost – when evaluating warranty administration models including: (1) reputational risk; (2) litigation and regulatory risk; (3) personnel and management risk; and (4) technology and infrastructure risk.

Reputational risk

Will homeowners believe they will be able to obtain a fair and unbiased resolution to issues and/or complaints via a self-administered warranty program? If not, where do they go and what do they do?

What is the potential cost to the business if there is an increase in homeowners publicly expressing their frustrations to neighbors, friends and colleagues?

How prepared are you to manage negative social media posts which may result due to homeowners feeling they are not being heard and treated fairly?

What is the monetization of these issues in terms of your market reputation?

Litigation and regulatory risk

What if plaintiffs’ attorneys see an increased opportunity for litigation?

What if a court finds that the process to resolve issues and complaints is unfavorable to the homeowner and biased for the builder?

What happens if mandatory binding arbitration is not required or not enforceable? A cornerstone of the PWSC program, it is a proven deterrent to lawsuit solicitations by the plaintiffs' bar that may be less effective or enforceable under self-administration.

What is the totality of the financial risk/exposure (i.e. increasing in-house legal resources, external attorney fees, settlement costs, etc.) for defending the company and its warranty administration processes?

How much legal time and effort will be required to develop a warranty for each state in which the builder operates, making sure that it is consistent with any specific judicial, legislative or jurisdictional requirements?

How much effort (time, money, and people) will be required to consistently monitor activities in each state to ensure that the warranty document remains compliant and reflects the latest judicial and legislative landscape, decisions and trends?

Personnel and management risk

Are all of the necessary functions required to bring warranty administration in-house understood and do you have personnel available with the requisite expertise?

How can existing staff handle all of the additional responsibilities associated with warranty self-administration in addition to their current tasks if they are currently fully utilized?

What additional training is required on alternative dispute resolution for in-house staff and what will it cost?

Who will manage the warranty self-administration transition and process going forward, what will their salary, benefits, and other costs be, and are you diverting potential revenue generators/protectors to a cost center?

How difficult will it be to control and manage personnel and related costs associated with self-administration?

Technology and infrastructure risk

Are the technology and infrastructure specifications/requirements for creating and maintaining a self-administered warranty program defined and clearly understood?

What is the process, timeline, and cost for developing a system to track: (1) every homeowner (and subsequent homeowner); (2) the type of financing, sales price and all warranty related documents/addendums provided to homeowners (including state specific information); (3) all subsequent contacts with homeowners and the nature of those contacts; and (4) the resolution process including information requests, complaints/issues and arbitrations?

Warranty Administration Cost Savings Analysis

The decision to self-administer or outsource a warranty administration program requires evaluation of several financial, reputational, organizational and technology factors (as the aforementioned considerations demonstrate) – with each contributing significantly to the true cost of administration. In our experience, companies who have conducted a comprehensive analysis ultimately determine outsourcing better protects their bottom line and mitigates risk.

However, for purposes of this analysis, as most financial factors can be weighed side-by-side, unlike other, less tangible considerations, the following self-administration vs. outsourced comparison will be evaluated strictly on the basis of cost.

As the following chart illustrates (and our actual experience confirms), the costs to create a self-administered warranty program for a large builder operating in multiple states can exceed \$1,000,000.

SAMPLE COST BREAKDOWN FOR SELF-ADMINISTRATION

Staff Costs assuming 10 people (claims/ADR personnel, customer service, IT, admin)						
Salaries	Benefits	Taxes	Space/ Supplies	Equipment	Training	Total
\$400,000	\$140,000	\$32,500	\$15,000	\$17,500	\$4,000	\$609,000
Management Costs (partial in-house legal and partial operations manager)						
Salaries	Benefits	Taxes	Space/ Supplies	Equipment	Training	Total
\$120,000	\$42,000	\$10,000	\$3,000	\$3,500	\$1,500	\$180,000
Total Personnel Costs						
Salaries	Benefits	Taxes	Space/ Supplies	Equipment	Training	Total
\$520,000	\$182,000	\$42,500	\$18,000	\$21,000	\$5,500	\$789,000
Legal Costs (create warranty and develop state specific warranties)						\$75,000
Information Technology Costs (create system + hardware and software)						\$250,000
Grand Total to Create a Self-Administration Program						\$1,114,000 *

* This should not be considered an exact number but we believe that it falls within a range of anticipated costs for builders with 2,000 or more annual closings. We realize that personnel costs, including the number of personnel, will not be the same for each builder, but for large builders operating in multiple states, these costs would be considered reasonable. For smaller builders, although the number of personnel required may be fewer, it will not be a proportionate reduction and they will still incur similar legal and technology costs.



Under the PWSC outsourced model, the savings could easily exceed several hundreds of thousands of dollars per year based on actual administrative fees currently paid by builders and the variability of in-house program administration costs (i.e. legal, technology, personnel, etc.) are eliminated via an all-inclusive fee structure which remains constant regardless of the number of homes sold. The PWSC costs are predictable and allow for the greater cost control builders desire.

While there will most likely be other issues and/or considerations unique to each builder that will need to be addressed, PWSC has been performing 3rd party warranty administration successfully for 20 years, understands all of the issues associated with this process, and has the experienced staff, support systems and proven track record to address them in the most operationally efficient and cost effective manner possible.

We have over 1.3 million warranties under administration and understand the residential construction industry as well as the myriad issues unique to builders and homeowners. We are experienced in the alternative dispute resolution process and have successfully assisted in resolving thousands of complaints. That experience, coupled with our reach and internal resources as well as the portfolio of other services available to customers, make PWSC the ideal choice for warranty administration. We represent **VALUE**.