

# INPUT<sup>®</sup>

## Research Bulletin

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## Using Warranty as a Competitive Weapon

Extended warranty terms are being offered by equipment vendors in an attempt to maintain or improve their market position. However vendors are increasingly finding that users are reluctant to pay for inessential product or service features. This bulletin highlights some key vendor warranty practices in two sectors:

- Client/Server systems where uncertainty reigns among certain vendors as to the significance of warranty.
- The Desktop sector, where the lead has been taken by Compaq with the 1992 announcement of its extension to a standard 3-year on-site warranty.

### Client/Server Buyers Neutral to Warranty

Users who are specifying and purchasing client/server systems show little interest in warranty considerations at the time of vendor and system selection. Nevertheless warranty considerations play a part when the detailed contract negotiations take place. For example, including a guarantee of response time in warranty offerings is a key differentiator in improving the

value of the warranty contract. Two companies which have established *good practice* in this marketplace are Sun Microsystems and Hewlett-Packard.

### Sun Microsystems

Sun offers warranty on 3 different types of product:

- Desktop devices
  - Servers
  - Software.
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- Desktop devices carry a warranty of 12 months. The level of service is *Return to Sun*, ie. the user must return the unit for repair to a Sun Repair Centre, paying the freight/carryage cost. There is no guaranteed *repair time*
  - Servers carry a warranty of 12 months. The level of service is On-site Repair, including parts and labour, but there is no guaranteed response time. Servers are normally distinguished from desktop units by being too heavy for a single person to carry in

- Software (bearing the Sun label) carries a 12 months warranty. This implies that defective media and bugs will be corrected free of charge, but without on-site visit. All software will be brought up to its full functionality as specified in the manuals. Solutions, patches, and fixes of a temporary nature will be provided through a Sun Service Centre hotline, and any user has the right to demand a 'minor release' to work around the problem, since there is no guarantee of *fix time*. Users are also eligible for a patch to be down-loaded from the Sun electronic database of faults/patches and are free to look into the known bug-list on-line. There are other options available to Sun to speed up the process of delivering a new clean system or to deliver a patch, but these are only used at Sun's discretion.

Sun sees an advantage in allowing its users to invoke warranty through the telephone, i.e. they do not require hard-copy verification.

#### Hewlett-Packard

Warranty terms and conditions were last autumn (1992) rationalised at Hewlett-Packard (H-P) in order to make them more standard across the whole corporation world-wide.

Warranty on products is offered at 3 levels:

- For systems and workstations, 1-year on-site warranty is provided with a 3-working day response time as the base. This warranty can be upgraded at time of purchase to any level of cover or response time as provided in the normal maintenance contract, e.g. with a 4-hour response, with extension to 2-shift or even to 24 hour by 7 day cover
- For PC products, warranty gives 1 year on-site cover with next working day response. There are no cover or response time options

- For PC peripherals, such as Laserjet, Inkjet, and plotter families, warranty varies dependent upon the device. The period can vary typically from 1 year to 3 years, and the service level is normally *Return-to-H-P*, but this can, according to a schedule of charges, be upgraded to give what is known as a *Diamond Edge* service, i.e. up to a 3-year on-site service. For return-to-depot warranty, there is no guaranteed turn-around time although 5-days is usually quoted.

The H-P warranties and their upgrades can be sold through the indirect sales channels, which take the orders while H-P itself is responsible for delivering the service.

#### Warranty Gives Competitive Differentiation in Desktop/PC Sector

The high reliability of desktop/PC equipment has made service a non-issue for many users. However, the use of equipment in unprotected environments can make warranty an attractive option.

A disk repair vendor, to whom INPUT recently talked, pointed out that the MTBFs (Mean Time between Failures) being quoted for the most advanced drives now amount to something like a period of 50 years. In theory therefore repairers should never see these drives before they are consigned for scrap. User mistreatment however ensures that they do.

This type of problem is being addressed by the longer warranty periods now on offer as standard (up to 3 years) and the taking out of support contracts on the networks to which the desktop units are increasingly linked.

In future the mishandling of desktop devices is likely to increase as offices reconfigure, and information workers become more mobile. This will be further encouraged by the advent of wireless LANs.

The increasing use of laptop, notebook and other forms of hand-held or portable devices further complicates the warranty issue. Vendors will have to be able to offer the same warranty level of service in all regions where *on-the-move* users are operating with their portable units.

IBM claims to be following an EC guide-line in having a policy which states that warranty is transferable across borders within the Community, ie. warranty on equipment sold in any EC country will be honoured in any other. This is in fact in force worldwide within IBM.

Compaq startled the personal computer market in the autumn of 1992 when it announced its policy of offering a standard three year warranty period on its new products. It claimed that this was a deliberate move to gain a significant competitive advantage against *clone* manufacturers.

Dell has also a high value warranty package with the standard, first 12 months on-site offering, being available for optional extension at user choice and next day call-out guaranteed.

IBM offers product warranty on desktop services such as PCs, printers, general-purpose and application-specific terminals, ie. cash registers, financial terminals etc. This warranty is normally anything from 1 month to 6 months, or more. For example, IBM offers standard 1-year warranty with on-site service on PCs and 3270 terminals, and is also allowing this warranty to be extended to 3 years but only for these desktop devices. This warranty extension is only available at time of purchase. It has been offered on 3270 terminals for over 2 years now, and was first applied to PCs in the autumn of 1992 on the new units launched at that time.

This warranty extension has its own structure of options:

- Users may choose to have a parts and labour or parts only upgrade
- Service level offered after the first 12 months is dependent on the unit size. Larger PCs attract full on-site service; smaller ones have a return-to-depot service.

SNI extends warranty to 3 years on displays and PCs in line with IBM practice. On units which are subject to wear-and-tear from the general public, such as retail and banking terminals and cash dispensers, the warranty is limited to 6 months.

The level of service offered by SNI is essentially *return-to-depot*, but in the case of systems (ie. excluding displays and PCs) it is more likely that the user will expect an on-site service and that this is what will be provided. Warranty is usually invoked with a proforma order, ie. in writing. The trend within SNI is to extend warranty durations.

### Warranty Offerings Compared

Exhibit 1 shows a comparison of important warranty service elements for two key vendors in the client/server and desktop/PC sectors including a comparison with those for IBM mainframe systems.

Exhibit 1

## Some Key Warranty Offerings

Feature	Vendor		
	Client/Server Sun	Desktop/PC Compaq	Mainframe IBM
Period	3 months to 1 year	3 years	1 year
Standard Level	On-Site or Return-to-Sun	On-Site	On-Site
Extension	None	Up to 4 years	Only on Desktop units
Response time	No guarantee	1 working day	No guarantee

Source: INPUT

It can be seen from Exhibit 1 that IBM follows a traditional approach to warranty on mainframe processor systems and connected peripherals. This is still one year in duration and is offered as an equivalent to on-site service. There is no guaranteed/committed response/repair time for any units serviced under warranty. Another example would be SNI where a standard warranty is 12 months on both hardware and software modules.

In formulating successful extended warranty strategies vendors need to balance two key user requirements that are increasingly an issue in the client/server and desktop PC markets:

- Offering users *simplicity* in the purchasing process
- Offerings users *flexibility* in selecting options to meet specific needs.

This Research Bulletin is issued as part of INPUT's Customer Services Programme for the information services industry. If you have any questions or comments on this bulletin, please call your local INPUT organisation or Peter Lines at INPUT, 17 Hill Street, Mayfair, London W1X 7FB England. (071) 493 9335, Fax (071) 629 0179