



THE WARRANTY RACE

New Car Buyers Will Benefit From the 5/50 Competition

BY ROGER HUNTINGTON

DETROIT AUTOMOBILE manufacturers are in a "warranty race," a fiercely competitive event. As recently as the late 1950s the standard guarantee on new cars covered 90 days or 4000 miles, as it had for many years. With 1960 models, the entire industry cautiously adopted a 12-month/12,000-mile warranty. At the start of the 1963 model run, Chrysler surprised the industry by extending its warranty on the engine, transmission, driveline and rear axle to five years or 50,000 miles. GM and Ford were caught off guard, as they weren't yet ready to go this far, but they countered by extending the warranty on the entire car to 24 months or 24,000 miles, while Chrysler retained the

12/12 warranty on parts other than the engine and drive-line. At the start of the 1967 model run there was another flurry of activity. First GM, then Ford and American Motors announced they would adopt the 5-year/50,000-mile program on the engine and drive-line. This gave them an edge over Chrysler, which offered only 12/12 protection on non-drive-line parts of the car. Chrysler countered by extending to 24/24 the agreement to include the remainder of the car, then topped GM and Ford by adding steering, suspension and wheels in the 5/50 warranty. Within hours Ford, GM and AM announced they, too, were matching this, and a day or so later Ford went a step further by

including older used cars in the program. Ford guarantees the power train of any older Ford product either 24 months beyond the end of the original warranty, or a maximum of five years or 50,000 miles from the original date of purchase, with the car owner paying the first \$25. GM hasn't officially attempted to match this, but many GM dealers, on their own, are extending the 5/50 deal to unsold 1966 cars. Some believe they must meet the competition from unsold Ford and Chrysler models. Warranties suddenly have become a definite selling factor.

Consider that the most complex and expensive item of common "hard goods," the family car, carries the most comprehensive guarantee against defective construction and premature failure. Either Detroit is making some very good cars these days, or the manufacturers have their necks out a mile!

Which is it? Are today's cars really better and more long-lasting than cars of 8-10 years ago? Have the manufacturers over-extended their necks? Why this sudden surge of interest in

new car warranties? Are there hidden benefits? How was Chrysler able to make the radical 5/50 move four years earlier than GM and Ford?

In the first place, any Detroit executive will say that long new car warranties offer some important benefits to the car manufacturers and their dealers. Primarily, warranties are a strong sales factor. They give the buyer more confidence in what amounts to a very large family investment, one that ranks second to the family home. The average new car buyer keeps the car about three years. The earlier 24/24 warranties didn't cover him for this period. The new 5/50 agreement does, more or less. Chrysler sales-people, who have lived with the 5/50 warranty for several years, believe that one of six sales during that period has been clinched by this warranty. This is difficult to prove definitely, but there is no doubt in their minds that the 5/50 warranty has been a powerful sales argument, especially when other companies didn't offer it. Of course, it also helps the sale of late model used cars because the warranty can be transferred to a new owner.

Another plus factor is that long warranties return car buyers to the dealerships periodically for service inspections and certification of service work done by non-dealer garages. GM and Chrysler warranty contracts require that buyers return every six months. Ford stipulates once a year. Each visit to the dealership is one more exposure to a new car sale. Car salesmen always have said that getting prospects into the dealership—even if it's in the service garage—is half the battle. They're all in favor of these longer warranties and their required periodic service visits.

ANOTHER REASON dealers approve long warranties is that they simply put more money from additional service work in their pockets. In effect, warranties keep cars tied to the dealer's service shop for five years instead of two. Normally, owners of older cars that are off warranty have much of their service work carried out by independent garages. Now, any major work for almost the life of the car is to be completed by the dealer who sold it new. An automatic transmission that fails at 40,000 miles is a lucrative repair job for a service shop and a tough one for a car owner to meet financially. Under the old 24/24 warranty, the car would be off warranty and the job might be taken to an independent transmission garage. The owner might be billed for \$300 or more. Now, the factory pays the bill. The dealer gets the job and the accompanying profit. At least both he and the car owner are happy. What makes dealers happy

is supposed to make the corporate management happy—so everybody is happy!

SERVICE EXPERTS estimate the new GM, Ford and AM 5/50 warranties will put an additional \$100 million gross profit per year into dealerships throughout the country. Dealers aren't scoffing at this figure. Perhaps the independent shops won't suffer too much. It is expected, as the warranty service work load increases at dealership garages, that more and more work may be farmed out to independents. There should be plenty of business for everyone, especially because there is a shortage of mechanics and probably will be for some time. Car owners will benefit most of all.

Another important benefit of the new long warranties is that they make car owners aware of the need for regular maintenance. Detroit service people say this could be the real clincher in the whole program. The key is that long warranty contracts require car owners to return to dealerships periodically to verify that necessary service work has been completed. The earlier 24/24 warranties carried no such provision. Service work need not be done at a dealer's garage, but the car owner must show receipts to verify the work was done.

This mandatory service program really is very simple. With Chrysler products, for example, owners must return the cars to the dealerships at least once every six months, at which time the service managers certify completion of service work and log it on the service record sheets in the glove compartments. Records also go to a computer center in Detroit, where complete service records of more than five million Chrysler cars are stored. Required service simply specifies oil changes every three months or 4000 miles, oil filter replacement at each second oil change, clean air filters every six months, and lubrication of front ball joints and steering rod ends every three years or 36,000 miles. Other common maintenance jobs, such as changing plugs and points, aren't mandatory because they don't affect the life of the driveline, though they must be done to maintain good performance, fuel economy and easy starting.

Car manufacturers have tried to make mandatory service programs as simple and easy as possible. In effect, they've been forced to strike the best possible compromise between programs that would be easy on the customer and programs that would provide reasonable protection of their products on warranty. Obviously, they couldn't guarantee engines that never had the oil or oil filter changed. Clean

air filters also are vital in keeping dirt out of engines. Manufacturers must be sure this work is done at known intervals. On the other hand, the majority of engine components, transmissions, drivelines and rear axles, and steering and suspension components have been improved to such an extent in the past few years that no fear exists that they won't function properly—without maintenance—for five years or 50,000 miles. Carmakers never could have offered warranties such as this 10-15 years ago. As it is now, they can offer super warranties with only a few simple maintenance jobs on the mandatory list.

FORD PEOPLE have their necks out a little further in requiring a visit to the dealership only once a year, and extending the oil and oil filter changes to six months or 6000 miles. This probably is as far as warranties can be extended with the present state of automotive development.

GM divisions use a 6000-mile interval on required oil and filter changes, but they put a time limit of 60 days on the oil change. They require a visit to the dealer for service verification every six months. GM, then, has the most restrictive of all 5/50 warranties, because two oil changes are required between 6-month visits—a total of six oil changes per year to keep the contract in effect. Obviously, the GM divisions are more cautious than are Chrysler and Ford.

This policy probably won't last long. Many GM dealers believe the mandatory requirements will be eased considerably before the 1968 model year—at present, GM really isn't "competitive" in the new 5/50 warranty race.

American car owners are notorious the world over for the haphazard care they give a \$3000 investment, but new warranties put it squarely up to owners to do their share in taking care of

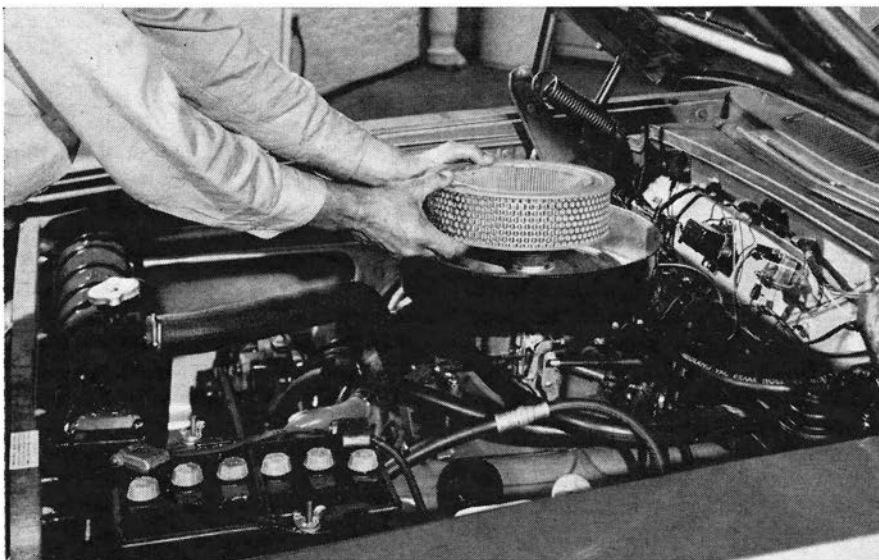


WARRANTIES

the car. If owners don't participate, no deal. Salesmen are asked to point this out carefully when they sell new cars under the 5/50 plan. Chrysler salesmen, who have lived with the 5/50 warranty for four years, report their buyers are more aware than ever before of the need for conscientious service. Service volume has mushroomed. Even the oil companies verify that Chrysler's 5/50 warranty has done more for regular oil changes than all the printed warnings put together.

and 1964 models on the 5/50 warranty. Service experts estimate, however, that the warranty gross in the 2-5 year period will average between \$50 and \$75 per car. There will be fewer claims, but the cost of each claim will be higher, because it will be necessary more frequently to disassemble engine or transmission.

If this estimate is correct, it would mean another \$500 million or so per year out of the manufacturers' pockets and into the dealers' pockets.



How much is all this costing Detroit? This is impossible to answer accurately. Car manufacturing firms jealously guard their warranty service costs. To release them would be risking a label as the "worst" car on the market. However, an idea can be formed looking at the estimate of \$500 million gross volume of warranty work per year. Assuming 8 million cars are sold, this represents \$60 per car. This estimate is verified by various dealers, who report the average new car has three warranty claims in the first year, averaging roughly \$20 per claim. Of course this figure won't change with the new 5/50 warranties, because the carmakers have been paying the bill anyway on the earlier 24/24 warranties. It's the period between two and five years, and between 24,000 and 50,000 miles, however, that will cost the companies additional money. The results of this won't become immediately apparent. Chrysler won't reveal information on experiences with 1963

Car dealers don't make as much money on warranty work as they do on straight service orders. The reason is that every service job is rated at a certain number of fractions of hours in the "flat rate" manual issued by the factory. The factory pays for the job on the basis of this number of hours of labor, multiplied by an agreed-upon "going rate" for auto service work in that particular area. These rates vary from \$4 to \$7.50 per hour across the country. The factory compensates the dealer for parts on a basis of "dealer net plus 25%." The dealer does the job, then bills the factory on this basis on a special work order form. Payment usually takes up to a month.

Thus it is easily seen how the dealer can make more money on straight non-warranty service work. For one thing, he charges full list price for parts, which may carry a markup of more than 50%. And, he often will charge a higher labor rate than what factory representatives consider the

going rate in his area. Many dealers charge 50¢ to \$1 per hour higher. Hence, on many jobs, it is possible to make 33% more on straight work than on warranty jobs.

This has both benefits and problems. It insures that the dealer will not look for warranty work for which the factory must pay. Dealers prefer straight service work, yet warranty jobs are attractive enough to fill gaps in the normal flow of service volume.

Mechanics may grumble if they are assigned too much warranty work. They generally are paid 45-50% of the shop's labor rate, based on the flat-rate time, so they make more on the straight service work if the shop charges a higher rate for this type of job, as many do.

THESE ARE problems that must be worked out. There is no question that an increasing amount of the service done in dealership shops will be factory-paid warranty work. Manufacturers won't carry warranties beyond 5 years/50,000 miles on the power train in the near future, but it is very possible that the entire car will be warrantied to this extent by the early 1970s. Much more work would come the dealers' way because the major portion of current warranty service comes not from the mechanical components, but from the body—leaks, wiring, wind noise, rattles and electrical accessory failures. If Detroit warrants cars to 50,000 miles, the service business will boom. Service people think this may well happen.

Even as this is written, car manufacturers are starting development of a quality control program that will serve to protect them in years to come. This is not simply quality control on production and assembly lines. A new approach is research into the vital preparation of new cars under their own roofs for delivery. "Prepping" new cars—inspection, adjustment and operational tests—now is left to dealers who sell the cars. Dealers are allowed approximately \$45 in the list price of the car to meet the costs of preparation. These funds are not rebated to dealers by the manufacturers, so dealers must pay for preparation out of profits. If dealers skimp on preparation, that much more profit is available to deal with on the sale of cars.

Needless to say, new car preparation is soft-pedaled in many dealerships; hence, the factory eventually pays. Work that is neglected in preparation usually must be done later on warranty, with the factory footing the bill. Dealers don't necessarily plan it that way, they just hope the buyer will accept the car and perhaps overlook a few defects.

Therefore, car manufacturers desire to take this preparation out of the dealers' hands. The first serious attempts have been made during the past several months. For example, Pontiac has a new "Zero Defect" program in its Pontiac, Mich., plant to accomplish 90% of such preparation right at the end of assembly line. Technicians check ignition adjustments, wheel alignment and fluid levels, test for water leaks, wind noise and rattles, and closely inspect paint and chromium trim. About all dealers must do when they receive the cars is to clean them, fit the hubcaps and put gas in the tank. Pontiac hopes to extend this program to all outlying as-

sembly plants by the end of the 1967 model year.

FORD'S IDEA is to establish major distribution centers in various cities across the country where thousands of cars will be received from assembly plants. The cars then will be prepared on special conveyer lines, under factory control, and stored for up to 30 days in a closed garage. Dealers will choose cars at distribution centers and pay a flat \$22.50 for each car prepared ready-to-drive for delivery to the buyer. In this way, cars are prepared correctly to minimize chance for expensive warranty work later. Ford presently has only one distribution

center in operation, an experimental facility near Portland, Ore. This complex serves 50 dealers within a 100-mile radius. If this system works, Ford plans to invest up to \$100 million within two years in similar facilities.

GM and Chrysler are watching closely these developments. The Ford and Pontiac experiments could hold the answer to reducing future warranty costs. Proper preparation and adjustment of new cars before delivery may be the key, rather than on warranties after irate customers return them to the dealers. However this is accomplished, consumers will be the winners because new car warranties will get better and better. ■

TWO WARRANTIES—WHAT THEY COST

LONG-TERM warranties are far from total protection against mechanical expense, but neither are they paragraphs of worthless gobbledygook. Their real value depends to a high degree upon the owner's active attention.

Keeping the warranty in force demands planning and effort. A wise owner will read and re-read the terms of his contract until he thoroughly understands what maintenance is required, and when, and what is only "recommended." Not many individual dealership service managers have the time to protect him against his ignorance and, unfortunately, there are a few who will even take advantage of it.

For example, our first manager insisted to us that a transmission flush and adjustment was due, though the warranty manual states that the factory-installed fluid and filter are good for the life of the car, barring continuous overloading. He also sent thoughtful reminder cards reading, "Your car is way past its 2 months' factory service . . . phone us for an appointment right away." Our appreciation was somewhat diluted by the fact that the specified oil change period is 3 months, not 2. We changed dealers.

The only occasion we have had to enforce our warranty was when we asked the second service manager to identify and cure an elusive, annoying clicking sound. He installed a new water pump without delay, charge or question—although this was well beyond 20,000 miles. The few problems we had with our first dealer are well balanced by our good relationship and confidence in the second.

The benefits of consistently carrying out a warranty program are substantial, and not the least of these comes at trade-in time. If the car is sold before the warranty has expired, the transferable remainder will be attractive to the new buyer. If afterward, the validated warranty booklet will give impressive evidence of long-term factory service and care by the original owner.

Generally, these warranties seem fully worth the extra bother and expense of keeping them valid. Of course they do give the owner freedom from the fear of major financial disaster involving the "power train," but most important of all is the good maintenance he is forced to carry out and the added reliability and value this gives his car throughout its life.

WARRANTY SERVICE—TWO HISTORIES

CAR A—1964 Dodge Dart Station Wagon

| Mileage | Service | Cost |
|---------|--|----------|
| 4190 | Change oil. | \$ 3.38 |
| 6350 | Change oil, oil filter, clean carburetor air filter, lubricate choke and distributor, manifold heat valve, inspect fluid levels, check seals and ball joints, etc., rotate tires, add anti-freeze. | 18.65 |
| 9596 | Change oil, filter, engine performance evaluation, service smog device. | 26.90 |
| 12,503 | Change oil, filter, lubricate choke. | 10.47 |
| 14,454 | Front end alignment, balance wheels. | 13.06 |
| 16,647 | Change oil, filter, carburetor air filter cleaned, lubricate choke and distributor, manifold heat valve, inspect fluid levels, check seals and ball joints, etc. | 13.18 |
| 20,554 | Change oil filter, free and adjust choke and carburetor. Check for looseness in drive-train. | 18.82 |
| 22,270 | Wheel alignment, rotate tires, adjust choke. | 14.30 |
| 23,703 | Change oil, filter. | 10.17 |
| 25,807 | Overhaul carburetor, service smog device. | 19.35 |
| | Service Total | \$147.28 |

Repairs and Replacements

| | |
|-----------------------|----------|
| Stoplight switch | 2.70 |
| Two brake light bulbs | 1.04 |
| Turn indicator unit | 3.21 |
| Water pump | n.c. |
| Replacement Total | \$6.95 |
| Total | \$154.23 |

CAR B—1964 Dodge Polara Hardtop Sedan

| Mileage | Service | Cost |
|---------|---|----------|
| 13,253 | General checkup: Change oil, clean oil filler cap, inspect fluid levels, check seals and ball joints, lubricate, etc. | \$ 5.70 |
| 15,576 | Change oil and filter, clean air filter. | 8.47 |
| 17,534 | Change oil, lubricate, rotate tires. | 6.71 |
| 19,153 | Change oil and filter, inspect brakes and adjust. | 19.47 |
| 21,577 | Change oil and filter. | 8.47 |
| 24,135 | Change oil, new air filter, balance tires. | 8.90 |
| 26,245 | Change oil and filter, re-pack front wheel bearings, lubricate. | 14.54 |
| 26,301 | Replace smog valve. | 3.95 |
| 26,330 | Electrical system tune-up; new points, condenser, rotor, spark plugs. | 25.86 |
| 28,911 | Change oil, lubricate, re-pack front wheel bearings, clean air filter and smog valve. | 11.70 |
| 31,184 | Change oil and filter, lubricate, clean air filter, flush cooling system. | 19.26 |
| 33,682 | Change oil, clean smog valve, align, check brake lining. | 16.15 |
| 35,841 | Change oil and filter, lubricate, clean air filter, replace fuel filter. | 16.29 |
| | Service Total | \$165.47 |

Repairs and Replacements

| | |
|---|----------|
| Re-line front brakes, overhaul front wheel cylinders, flush cooling system. | 36.56 |
| Replace both mufflers and one tailpipe. | 36.83 |
| Two sets new tires (8.25-14). | 205.00 |
| Two new brake light switches. | 3.00 |
| Two taillight bulbs and dome-light bulb. | 1.80 |
| Rear bumper straightened (covered by insurance). | 32.00 |
| Grille straightened (covered by insurance) | 25.00 |
| Replacement Total | \$340.19 |
| Total Cost | \$505.66 |

CAR A—Purchased as a new car. Equipment includes 225-cu. in. Six, automatic transmission.

CAR B—Purchased as a used car after 10,000-mile CAR LIFE test (CL, Dec., 1963, and April, 1964). Equipment includes 383-cu. in. V-8, automatic transmission, power steering and brakes, average number of comfort and convenience items.