

FROM THE FIELD

Warranty blues

BY DAN FOLEY CONTRIBUTING WRITER

I recently ran two service calls that got me thinking how our industry handles warranty calls and credits. The first was a “no cooling” call, on a system we installed just under five years ago. The system was a gas forced air furnace with a split-system AC unit and coil. The second call was a “no-cooling” call on a split system geo unit we had just started up in May.

When I started in this business about 25 years ago, the warranties were pretty standard: 10 year heat exchangers or cast iron sections, five year compressors and one year parts and labor. These standard warranties have evolved over the years to cover more components for longer periods of time.

I sent one of my techs to the first call. He quickly diagnosed an ECM motor that had failed. He has a “cheater” cord that bypasses the electronics in the motor and operates the blower directly. This can provide continuous airflow in an emergency situation while we track down the replacement motor. In this case, the cheater cord had no effect; the motor was smoked.

Since this motor is programmed for the specific piece of equipment by the manufacturer, we had to locate the exact OEM replacement motor, send a driver to pick it up, and deliver it to the job site. Luckily, our vendor had the correct motor and we were able to quickly restore cooling. We also determined that this motor had a five-year warranty.

What might have been a \$1,250 service call was now a \$250 labor only call. In addition, when the client found out the motor was still under warranty, she was incensed that we charged labor to replace it. Now, we were the bad guys. I tried to explain that this was a manufacturer

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warranty that covered the part only but no luck. In addition, I had to fill out paperwork, return the part to my supplier, and hope I received a credit sometime in the next 90 days.

The second call was on a split system geo system we started up in May. The system ran but sounded like a bucket of bolts rattling around. The compressor motor was fine but something was broken internally in the hermetic compressor and was making the offending noise. The compressor would need to be replaced. So far, I was

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out 45 minutes travel time and an hour spent at the site diagnosing the problem – non-billable.

Again, I would need to send my driver to pick up the replacement compressor from the local supplier, send my technician back to the job site, recover and reclaim the refrigerant, remove the failed compressor, burn in the new compressor, replace the driers, evacuate the system, weigh-in the proper refrigerant charge, start and test the system, record temperature, pressure and electrical readings, fill out service ticket and warranty paperwork, and return the compressor back to the supplier for a credit.

In this case, it cost me seven man-hours for a technician, including travel time, and two hours for my driver. It also cost me the aggravation of my client for having to take two days off work so we could repair a system we had started up less than three months earlier. Add in the driers, torch and brazing rod, use of re-coup machine and vacuum pump, and the opportunity cost of time spent performing warranty service instead of COD service calls, and the dollars add up in a hurry.

I recognize that no one is perfect and all mechanical devices fail, some in the warranty period, some after. We create plenty of warranty calls ourselves through mistakes we make. We go back and fix them as promptly as we can, learn from our mistakes, and hopefully, don't make them again. But, when did it become industry standard for contractors to cover the cost of warranty service for manufacturer's defective equipment and components?

In the case of the failed compressor, my direct cost plus opportunity cost is well over \$2,000, probably closer to \$3,000. Yes, we track our warranty expenses and include a warranty reserve when calculating selling prices. But, the purpose of this is to recover our costs, not cover the manufacturer.

In the case of the motor replacement, at least we were able to charge for labor but at the cost of an upset client. Five year parts warranties are now the norm and we are seeing more and more manufacturers offering 10 year

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warranties on parts. Service makes up about 15 percent of my company's dollar volume, but it carries a larger gross margin due to the higher overhead costs of running a service department (phones, computers, scheduling, parts inventory, truck expenses, unbillable time, training, etc.). This department must be profitable in order to provide our clients timely and accurate service.

I question why we as contractors accept the burden of performing free warranty service on defective equipment. Other industries do not handle it this way.

It costs a considerable amount of money to stock service parts inventory as well as the cost of a driver to pick up and deliver the non-stock parts that are invariably required to service the many lines of equipment we see in the field. The mark-up we apply to parts carries this overhead burden and adds a small percentage to the bottom line. Now, I cannot charge for some of these parts until 10 years after the start-up date! That makes it difficult to run a profitable service department without

labor rates in the stratosphere.

The small warranty service parts bleed you through a thousand little pin pricks, but it is the major components that are indelibly burned into your brain. We once had a DOA leaker on an indirect DHW tank we installed. Of course, the boiler was stacked on top of the indirect in a closet. It took two days to get the tank and one day to remove the boiler, replace the tank, and re-install the boiler. The client was without hot water the entire time and reminded us that he had a working boiler and water heater before we started. Again, the manufacturer provided a replacement tank but we had to cover the expedited shipping and the cost of replacement. Keep in mind that this was not a field failure – it leaked right out of the box.

Again, I question why we as contractors accept the burden of performing free warranty service on defective equipment. Other industries do not handle it this way. We run a small fleet of 14 trucks. I talked to our service writer at our local Ford dealer. They are paid by Ford when they perform warranty service. Why doesn't our industry handle it this way?

My intent is not to slam manufacturers. The manufacturers that I deal with are my business partners

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and I treat them as such. I am only proposing that each partner carry their fair share of warranty expenses. If a manufacturer's product fails in the warranty period, why shouldn't they be responsible for the necessary repair?

In my dealings with manufacturers, I have the stories of warranty parts turned in that were not defective or that 80 percent of control boards returned were not defective (which I believe to be an apocryphal tale). My answer to that would be to deny the warranty claim if the part or component turned in is not defective.

Many times, I have been accused of seeing "the world according to Dan." I contacted two of my friendly competitors to solicit their opinion on the subject. My good friend and mentor, Mitchell Cropp owns Cropp-Metcalf Service, in Fairfax, Va. Cropp believes the different warranty terms are confusing to both the consumer and contractor. Since he works on all different brands and types of equipment, it is not easy to quickly determine which parts are in warranty and which are not. As houses are sold and change hands, new owners are unaware of what is still under warranty and what is not.

Cropp does not like the practice of entering his client's information into a manufacturer's website in order to extend the warranty.

"I am entirely against this," Cropp said. "The

manufacturer trusted us to purchase and install their equipment. They have to trust us to properly handle any future issues with their equipment. Don't sell it to me if you do not trust me."

I contacted Randy Minnick, owner of Minnick's Inc., in Laurel, Md., to gather his opinion. Minnick is also not a fan of the expanding warranties, but rather than fight it, he has a novel solution. He purchases a third-party labor warranty that covers his street rate for repairs done after the first year.

"These warranties are relatively inexpensive they and minimize our exposure created by the manufacturer's extended warranties," Minnick said.

I like the way Minnick thinks. He finds a creative solution to an industry-wide issue.

I leave you with these questions: How does your company handle warranty service? Is our industry's current system fair to all parties? ●

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