COVID-19 to Affect Vehicle Quality; Increase Warranty Costs for Automakers

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A global pandemic caused every major automotive company in the world to shut down, or at least alter operations. Dealers across the United States were forced to shut their doors. Vehicles were sitting at ports and on dealer lots for weeks and months.

And now the industry is trying to get the whole automotive eco-system back up. What could go wrong?

Those who know me, know that I am the essence of optimism, having spent more than 30 years cheering on a myriad of quality initiatives and seeing the industry improve to record levels. But in those 30-plus years, I've also witnessed how the automotive industry, and ultimately the consumer, fares with disruption – planned or unplanned. It's never been a smooth highway.

I've seen playbooks at every company, five-year plans, operational excellence projects – all great plans created by the smartest in the industry and with the best intentions. I would often hear: "We're better at launch than we used to be." In some cases, it's true. But the real data indicates that as an industry, automakers and suppliers still see quality negatively impacted at times of disruption. I would not expect anything to be different with the current global industry re-boot.

So, what should we expect? Without a pandemic precedent to serve as a benchmark, let's consider what we can measure and what we've seen in the past as an indicator of the quality impact, namely warranty and repairs at service facilities. If current and past trends are any indication, the global pandemic has implications to change what automakers and suppliers see in their warranties as they continue to ramp up operations, with the potential for several factors to disrupt results.

Plant start-up, supplier disruptions and vehicles sitting on lots at dealers and ports have the potential to increase repairs on the existing inventory of new vehicles, as well as those currently being produced. These factors all could negatively affect quality. Conversely, with stay-at-home orders shuttering dealerships for weeks, service and part delays have the potential to temporarily decrease repairs on models already in service.

While the full impact of these events may take months to hit automakers' warranty balance sheets, we can use data we have today on tens of millions of models and billions of service records in We Predict's Deepview to estimate the risk of these factors and the potential impact.

Let's start by looking at plant start-up disruption. How do you measure that impact? A company's ability to manage a full plant start-up mirrors that company's ability to manage launch. In moving from launch to launch +1 (the second year of launch), we can obtain a proxy for the company's ability to rise out of launch disruption. That change can be positive (coming out of disruption) or negative (increasing disruption). Both are important.

We studied 328 automotive launches and major start-ups from 23 brands over the past eight model years (2013-2020), and found that, on average, warranty repairs increase by 388 incidents per 1,000 vehicles (PP1,000). Even the best brand has a warranty increase of 104 PP1,000, and the worst brand experiencing an increase of 784 PP1,000. On balance, launch disruption accounted for 25 percent of the increase in warranty, with some brands faring better (11%) and others worse (44%).

Based on the study, service per 1,000 rates are projected to increase between 1,198 and 1,346 on late build-out 2020 models and early 2021 production due to plant and supplier disruption caused by COVID-19. This represents an increase of between 240 and 388 service incidents per 1,000 vehicles. Undoubtedly, automakers and suppliers have developed playbooks to guide them as they reopen and ramp up production, implementing new procedures and keeping employees safe.

With the starts and restarts due to subsequent outbreaks, along with financial strain on suppliers, there is bound to be an effect on performance for a period. But one thing I do know about our terrific industry is that it is incredibly resilient, resourceful and committed to success. We will overcome.

We Predict will continue to monitor the progress and help individual companies spot when they may be veering off course. Companies cannot wait years to understand what's impacting their performance today. Knowing the risks before they escalate helps all of us smooth out the road more quickly, minimizing, if not avoiding, costly repairs that tarnish reputation.