

## CHAPTER 1

### INTRODUCTION

#### 1.1 Introduction

Throughout history, the concept of warranty has been around and exists in some of early civilization. Babylonian, Assyrian, and Egyptian Eras, Ancient Hindu and early Islamic periods), through the European Period (Roman Era, Germanic, Jewish, and early English periods, and the early Russian Era), the Middle Ages, the Industrial Revolution and beyond. Until the sixteenth century, protecting the buyer from fraud and faulty workmanship has been the general purpose of warranty. When trade policy reversed around the dawn of the industrial revolution to favor the manufacturer, extended warranty was not a pressing issue since products were still produced locally by people known personally to buyers.

Products were still relatively simple and easily evaluated, and any dissatisfaction was addressed directly to the manufacturer, with word of mouth travelling fast in local

and tight knit communities. As communities grew, so did the acceptance of caveat emptor or “let the buyer beware”.

The second half of the twentieth century has seen dramatic changes in the role and the importance of warranty in relation to product sales and services. Four main factors responsible for this have been:

Activism of the so called' consumer movement' which resulted in greater awareness among consumers regarding their rights and the formation of strong and vocal groups to challenge manufacturers and force lawmakers to enact new laws to protect consumer interests;

1. lawmakers responding to the concerns of consumers and their advocates;
2. Manufacturers acting in a reactive mode to (1) and (2); and
3. Manufacturers initiating pro-active actions using warranty as a powerful marketing tool.

## 1.2 Definition of Warranty

A warranty is a contractual obligation incurred by a manufacturer (vendor or seller) in connection with the sale of a product. In broad terms (Wikipedia), the purpose of warranty is to establish liability in the event of a premature failure of an item or the inability of the item to perform its intended function. The contract specifies the promised product performance and, when it is not met, the redress available to the buyer as compensation for this failure.

### 1.3 Definition of Extended Warranty

An **extended warranty**, sometimes called a **service agreement**, a **service contract**, or a **maintenance agreement**, is a prolonged warranty offered to consumers (Wikipedia). The extended warranty may be offered by the warranty administrator, the retailer or the manufacturer. These warranties extend the period of the manufacturer's standard warranty.

### 1.4 Concept of Extended Warranty

Purchasers or consumer face the risk of product breakdown. Manufacturers often insure their customers against this risk by bundling a manufacturer's warranty in their products. A significant number of consumers also purchase additional insurance against product failure in the form of an extended warranty. Typically, these extended warranties extend the period of warranty coverage on the product. On average 27% of new car buyers purchase an extended warranty.

Extended warranties are sold by manufacturers, but are also sold by third parties. Third party insurers' offer extended warranties on many different consumer durables, including home appliances, electronic equipment, computers, furniture, and automobiles. Among the major insurers active in the U.S. are TRW Incorporated, VAC Corporation, IDS Corporation, Warrantech Incorporated, and Pat Ryan Associates. Warrantech, in collaboration with AIG Corporation, sells extended warranties in Europe

on a broad range of products. Some retailers also underwrite extended warranties themselves rather than offering an insurer's extended warranty.

### 1.5 Automobile Extended Warranty

A new automobile extended warranty (hereinafter called an extended warranty) is usually defined by two limits, time and mileage. An extended warranty is expired when either one of the two limits is reached. For example, a 5 years/60,000 miles extended warranty means the warranty will expire either in 5 years, or when the odometer reading reaches 60,000 miles, whichever comes first. The extended warranty for new vehicles usually does not come into effect until the coverage under the manufacturer warranty has expired.

Recently, most manufacturers have been offering 3 years/36,000 miles of full coverage. As the exposure of an extended warranty is measured from the registration date of the new vehicle, the age of any extended warranty is the time elapsed between the registration date and the valuation date.

## 1.6 Problem Background

The Extended Warranty is coverage on specifics was rejected that kicks in after the warranty coverage provided by the manufacturer or seller expires. Many consumers are encouraged to buy extended warranties (also called service contracts) when they buy vehicles or electronic appliances. In the case of appliances and electronic equipment, extended warranties are profit for the seller and not much benefit to the buyer because only about 3% of goods ever break down during an extended warranty period. An extended warranty may make sense, however, if you are buying a brand new model in the first few months after it has been manufactured.

Extended warranty has been studied for long time by researchers. Warranty and extended warranty research conducted to date, provides insights to scholars interested in further studying extended warranties. Some of research has found that consumers :( i) View Magnuson-Moss Act warranties as the same or worse than pre-Act warranties and (McDaniel and Rao 1982),(ii) May be willing to pay for better warranty protection (Rao and Weinrauch 1976)

Therefore, it is of our interest to explore and investigate the consumer's knowledge and attitude toward extended warranty in this research

## 1.7 Problem statement

Extended warranty has been known and accepted by most consumers in many developing countries. However, it is still new in Malaysia consumers as it has been introduced in Malaysia for less than 5 years.

In Malaysia there has been little discussion about the attitude of consumers toward extended warranty. The consumers' awareness and acceptance of extended warranty has not been widely discussed and studied. As an addition, the level of acceptance among Malaysian consumers is also uncertain. Therefore, it is of our interest to explore and investigate the consumer's knowledge and attitude toward extended warranty in this research.

## 1.8 Objectives of the Project

To review extended warranty policy in Malaysian automobile industry.

To explore consumer's knowledge and attitude in extended warranty policy in Malaysia.

To investigate the impact of providing extended warranty policy in Malaysian automobile industry to local consumer.

To conduct survey to analyze the impact of extended warranty in Malaysian consumer.

## 1.9 Research Questions

Our research is to examine the consumers understanding in terms of extended warranty policy. In particular the area of automobile warranty. A questionnaire instrumental has been conducted to aid our investigation in this research we use likert scale and close-end question to justify the research questions. The research questions are:

1. What is the percentage of consumers those whom express Knowledge about the extended warranty term?
2. Do Malaysian consumers welcome the idea to buy extended warranty as new policy in the market?
3. Do Malaysian consumers classified as risk taker and do they interest to apply extended warranty service when they intend to buy vehicles?
4. Does extended warranty can give Malaysian consumers peace of mind?

## 1.10 Questionnaire Objectives

The primary purpose of conducting a survey, of course, is to produce data that have been helped to answer important research questions. Therefore, the objectives of our research questionnaire are:

- To collect the require data from population.
- To predict the degree knowledge of consumer toward the extended warranty.
- To find the perception of consumers.
- To generate the frame work of study.
- To analyze the problem.

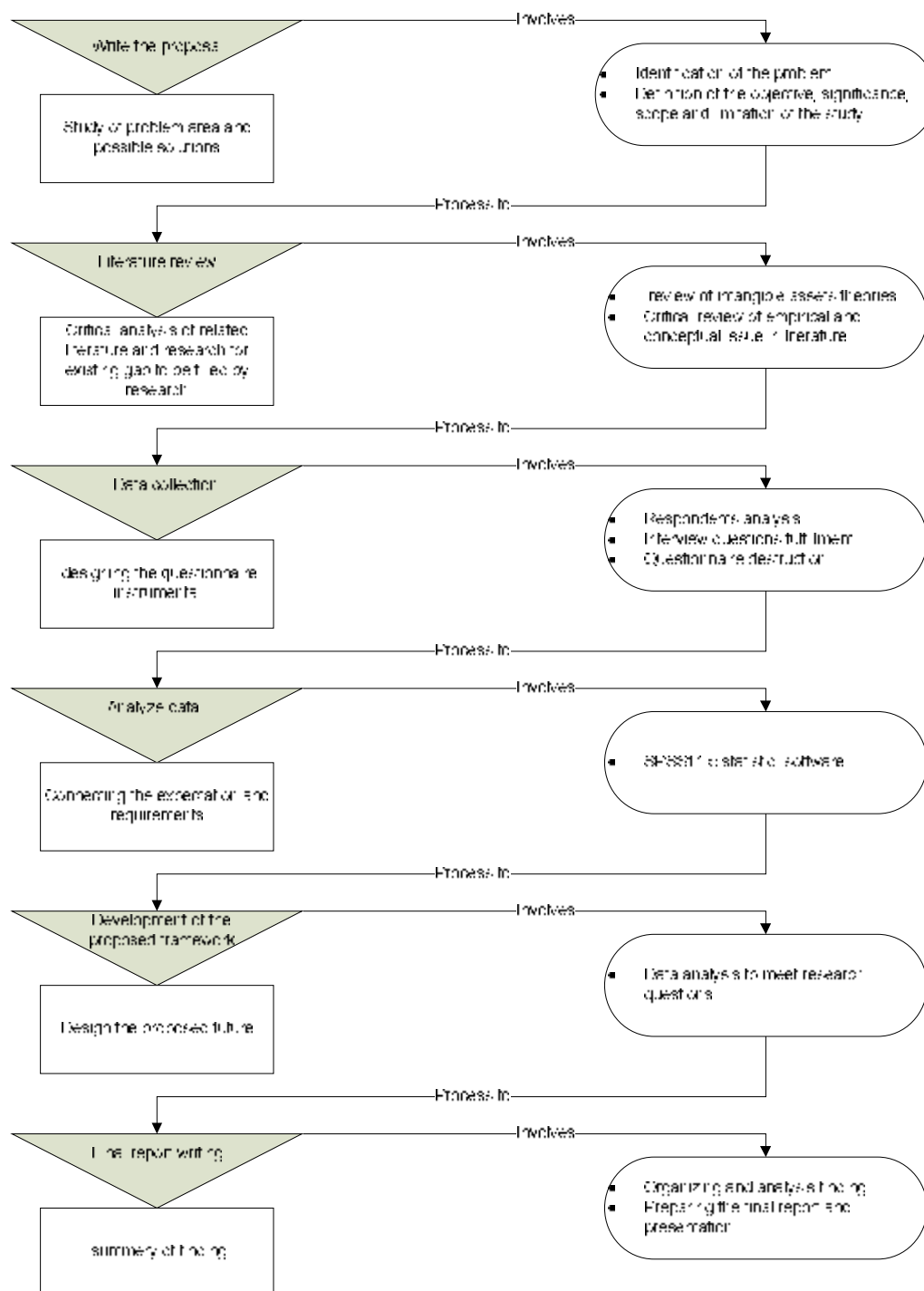
### 1.11 Scope of Project

The research has focused on extended warranty of Malaysian automobile industry. In particular, we have explored the degree of knowledge, of extended warranty among Malaysian consumers. A survey has been conducted to investigate various aspect of consumer's attitude toward extended warranty in Malaysian industry.

### 1.12 Work Chart

In conducting the research, we have used Work Chart guidance for the method. Our Work Chart has started from Preliminary study, Writing Proposal, Literature Review, Data Collection, Analyze the Data and the last task is the Final Report Writing.





**Figure 1.1** Project Work Flow Chart

### 1.13 Chapter Summary

In this chapter, a brief of warranty and extended warranty has been discussed and we have been discussed about the primary objectives of this research, why we under take Malaysia market and warranty as the case study and why extended warranty in Malaysian market and Malaysian consumers have taken our interest to investigate about it.