



How Do Warranty Claims Impact Your Bottom Line?

By Keith Updike, Senior Director

The primary objective of a company's CEO and/or President is to position his or her business for the long haul. To accomplish that task, the control of all operating costs is required. If we picture a business as a vehicle cruising down the road, it is easy to see how increased operating costs could knock it out of the fast lane, letting the competition pass right by.

In today's competitive, dynamic environment, manufacturers in all industries need to look for ways to significantly reduce costs and eliminate waste in order to survive. The key to reducing manufacturing costs continues to remain in the implementation of lean manufacturing techniques—throughout the value chain—by experienced, specialized operations professionals.

Significant successes have been achieved in industries where these techniques are being utilized to drive down inventory levels, reduce labor and material costs, and instill a culture of continuous improvement into the workforce. These are all critical to survival – but is focusing on these areas enough? Companies today are learning the hard way that those same principles for efficiency must also be driven toward product quality. The rising costs associated with warranty claims not only impact profitability from an expense standpoint but can damage a firm's reputation along with existing and future business opportunities.

Total costs related to warranty issues are staggering. According to the article, "Making

Warranty Management Manageable," by Patrick M. Byrne from www.logisticsmgmt.com, the 25 largest United States manufacturers spend close to \$15 billion each year on warranty claims. All industries combined are believed to consume 2.5 to 4.5 percent of their revenues as a result of warranty costs. The auto industry alone spends approximately \$8.5 billion per year.

Clearly warranty claims is an area where there is a significant opportunity for organizations to impact not only revenues but also their overall quality performance. By increasing quality performance, an organization's reputation will be improved which will, in turn, lead to growth potential. It is also important to note that, in the case of tier suppliers, it is not just the reputation of the manufacturer that is impacted but the Original Equipment Manufacturer or "OEM" as well.

Improving warranty performance requires focus in two key areas. The first area is superior management during the pre-launch stage. The key to First Time Quality has always been in the upfront design, the utilization of Poke Yoke (error proofing) devices, thorough and accurate Failure Mode Analysis, in-depth durability testing, Standardized Operations, operator training and a capable process for manufacturing. Failure to scrutinize every detail, learn from past mistakes, and devote the necessary resources during the pre-launch stage, often create a potential for warranty costs in the future.

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ANNOUNCEMENTS

BBK IS PROUD TO ANNOUNCE THE FOLLOWING TEAM ADDITIONS

Jeannine Binder, Executive Assistant - Frankfurt
Rosalie Cole, Corporate Recruiter - Chicago
Charles Heath, Director - Shanghai
Guy Morgan, Senior Director - Detroit
Michael Periard, Director - Detroit
Shao Ping, Associate - Shanghai
Lyndsay Richards, Marketing Assistant - Detroit
Michael Wagner, Director - Detroit
Dr. Simon Welte, Senior Director - Frankfurt
Dr. Harald Wieland, Director - Frankfurt

PROMOTIONS

Greg Coppola, from Manager to Director
Art Nelson, from Director to Senior Director
Nishit Shah, from Analyst to Associate
Dan Skedel, from Associate to Manager
Jennifer Tedeschi, from Marketing Manager to Marketing Director
Tim Turek, from Director to Senior Director
Mike Williams, from Associate to Manager

WE'VE MOVED

Due to our continued growth in Frankfurt, we have relocated to:

Du Pont Strasse 1
D-61352 Bad Homburg v.d.H.
Germany

Please visit www.e-bbk.com for further updates.

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LETTER FROM BBK

Hedge Funds - All Grown Up?

Hedge funds have certainly received a great deal of publicity recently. The tremendous growth of the industry since the mid-1990's coupled with its attendant influence in the capital markets has caused the public spotlight to shine brightly on this lightly regulated, publicity-shy investment group. Undeniably, as evidenced by this recent publicity, change is creeping into the once exclusive hedge fund world. The allure of significant funds and stellar returns has brought other eager investors into the mix, such as institutional investors with deep pockets and more watchful eyes. Further, the glory days of 30% plus returns are now making way for more modest returns with more security. It is now estimated that there are over 8,000 hedge funds worldwide with an estimated \$1.2 to \$1.5 trillion under management. As recently as 1990, hedge funds were an estimated \$38 billion industry. All this change begs the question – are hedge funds finally growing up?

HEDGE FUND TOP FIVE

The top hedge funds in America run more than \$76 billion combined

	YTD Assets	2004 Assets
Bridgewater Associates	\$17.7	\$12.4
D.E. Shaw	\$17.1	\$11.4
Goldman Sachs Asset Management	\$15.3	\$11.2
Farallon Capital Management	\$13.8	\$12.5
Caxton Associates	\$12.3	\$11.9

*Figures in Billions
Source: Absolute Return Magazine*

Although there is no statutory or regulatory definition of a hedge fund, the term generally refers to private pooled investment vehicles that are similar to mutual funds but differ in that they are lightly regulated, and their investment strategies are limitless. Typically, hedge fund advisors invest the funds of wealthy individuals and institutions for a fee (1 to 2 percent of assets) and a percentage of the profits (as high as 20% at times). Most hedge fund advisors—especially the pioneering ones—have traditionally sought aggressive investments with the potential for high rates of return. Since the potential for high returns equates to greater risks, the funds often combine traditional investments with short sales, leveraging, arbitrage strategies and the buying of distressed debt.

The growth and influence of hedge funds have also led to increased scrutiny, much to the chagrin of veteran fund managers. Last year, Stamford, Connecticut-based Bayou Management LLC allegedly defrauded investors and misappropriated over \$400 million. Also, CBS' "60 Minutes" recently aired a segment on a Canadian-based drug maker's lawsuit against a hedge fund and an independent securities research firm for an alleged conspiracy to drive down the drug maker's stock value. In 2005, BBK was hired by the Connecticut Department of Banking to act as a senior advisor to the Commissioner of Banking. The Commissioner had been appointed the Receiver of a Connecticut trust advisory services firm, itself owned by a hedge fund that was in receivership, whose assets were ultimately sold off. (See case study on page 4.)

Regulators worldwide have upped their attention level to this sector. In the U.S., the Securities and Exchange Commission has recently stepped up its investigation into allegations of stock manipulations and the misuse of inside information by hedge funds. The British Financial Services Authority and the French regulators are also investigating much more frequently. A more careful, deliberate and supervised hedge fund industry is certain to come in the years ahead.

William A. Wexler

Managing Director
and Corporate Advisory Group Lead

SPECIAL EVENTS

BBK & DCWA

On April 6, the BBK and DCWA (Detroit Council for World Affairs) Program on Global Economics and Commerce continued its 2005-2006 lecture series with a second installment, "Brazil: Economic and Commercial Development and U.S. Relations." Paul Sotero, Washington correspondent for O Estado de São Paulo (a leading Brazilian daily newspaper), was the keynote speaker.

During his presentation, Mr. Sotero discussed the uncertainty of October's upcoming Presidential election and how results could impact Brazil's ability to maintain the international economic activity that has helped strengthen its economy.



Mr. Paul Sotero

Mr. Sotero's overall theme underscored the advancement of democratic values in Brazil, as well as the significance of the dynamic friendship that exists between the United States and his native country. Mr. Sotero asserted that as Brazil seeks ever-more efficaciously to enhance its economic competitiveness and to better the quality of its democracy, it will require the guidance, support, and cooperation of one of its closest allies, the United States.

Dates for the third installment of the BBK and DCWA Program on Global Economics and Commerce will be announced shortly and will focus on another area of commerce and manufacturing in the global economy. For more information, please contact marketing@e-bbk.com. ■

VIEWS FROM EUROPE

Restructuring the European Automotive Sector

By Christoph M. Schindler, Managing Director - Excerpted from *Financier Worldwide*

Consistent margin pressure from global competition has left a tangible scar on European automotive suppliers. A surprising amount are living hand-to-mouth financially, operating on tight margins and fixed cost foundations while needing to keep production and quality levels up to satisfy the dependency of OEMs on just-in-time deliveries.



Since the volume of vehicles sold in Europe has been stagnant over the last few years, suppliers who have invested in capacity on a thin margin base are having trouble maintaining current levels in order to survive. Many are family-owned, mid-market businesses that have been working with OEMs and first tiers successfully for decades. Now under pressure, they are failing to understand and control their own cost structure. Frequently, they are making commitments on prices, terms and conditions which they can no longer meet. Energy prices and rising material costs, especially for resin metals, are additional factors making it difficult for some European suppliers to operate effectively.

It is not surprising that the number of restructuring cases in this industry space is high and growing. But, as the industry

becomes global, restructuring challenges are increasingly cross-border. Many suppliers have already taken steps to move some parts of their activities to lower cost countries, creating multi-region complications.

In 2006, we will continue to see how the European insolvency legislation, developed to support pan-European restructuring measures, actually operates in practice, with all the confirmations and disappointments it brings. OEMs and first tiers are being pushed to understand how these mechanisms work and how to use them to full advantage.

While some of the larger suppliers are expanding their reach globally and moving selected elements of their production processes to low wage countries, they are keeping high tech elements in Europe. That trend will continue. In the fiercely competitive automotive sector, OEMs and first tiers are heavily reliant upon the technology and technological impulses of their supply base in order to keep their products current and distinguishable from their competitors' products.

So the sector has a volatile dynamic at present. On the one hand, there is a strong movement toward relocating products that lend themselves to production in low cost countries. On the other hand, there is an increasing willingness to spend more to make sure that competitiveness and product quality levels are where they should be. ■

Warranty Claims... *continued from page 1*

The second area of focus lies in the post-launch stage. Creating a culture driven by a philosophy of technical problem solving will allow an organization to be proactive in their response to any quality issues that occur after the product begins production. A robust quality system, for example, can control the manufacturing process, immediately detect any problems and offer rapid solutions. Technical problem solving experts target the high dollar cost areas and through a regimented methodology, identify top priority problems, define projects, analyze data, investigate the root cause of the issue and eliminate the true problem. To truly achieve the maximum value from technical problem solving and optimize the cost

benefit, problem solving must be quick and accurate. The solutions should be driven by data, not by guesswork.

Today's manufacturing environment will only continue to become more competitive. As market share drives increased cost reductions and companies fight for their lives, more and more focus will be placed on accountability for the total cost of quality. Many suppliers cannot afford to assume the high cost burden of a recall. In 2000, when Bridgestone and Ford investigated responsibility for 6,500,000 tires, the world witnessed manufacturers' struggles with astronomical recall costs and legal fees, in addition to the incalculable costs of severing long-time relationships and damaged public reputation.

Companies need to capitalize on the opportunity to improve warranty costs by strengthening their launch management and quality systems. As is being witnessed with lean manufacturing, the option not to improve can ultimately result in failure, especially in today's economy. There is much riding on quality, not only today's bottom line performance but also long-term company viability. ■

“US manufacturers spend close to \$15 billion per year on warranty claims.”

BBK CASE STUDY

Interim Management

A trust advisory services firm (owned by a hedge fund in receivership) provided trust and custodial services to banks, third party administrators of retirement funds, not-for-profits and high net worth individuals. The company had over \$8 billion in assets under administration and had clients throughout the United States.

Management made a last-minute proposal to recapitalize, but the preponderance of litigation and adverse regulatory issues, in conjunction with the firm's inadequate accounting, management and capital issues, forced the Connecticut Department of Banking to petition the State Superior Court to place the Entity into receivership. As such, the Banking Commissioner of the State of Connecticut was appointed the Receiver. The Receiver then engaged BBK to assist with the planning of the receivership and to provide interim crisis management services.



BBK executed the following tasks:

- Receivership planning with the Connecticut Department of Banking personnel
- Crisis and transitional management
- Financial condition assessment
- Cash flow management and forecasts
- Invoicing of quarterly third party administration fees
- Developing wind-down strategies for the transition of accounts to successor applications service provider platforms
- Court reporting of an inventory of assets and a quarterly report of cash receipts and disbursements
- Post-receivership creditor and landlord management
- Assisting selling agent with the preparation of due diligence materials and hosting due diligence visits

The unbilled quarterly fees that were identified in the development of the weekly cash flow forecast were invoiced and resulted in adequate cash flows for self-sufficiency during the Company sale and wind-down process. One division was successfully sold in a bidding process to another Connecticut financial institution. The third party administration accounts and asset positions were successfully transitioned to successor applications service providers. ■

For more information on any of the articles in this issue of the BBK Quarterly Review, please contact marketing@e-bbk.com.



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