GM's Big Bet on Quality

By David Kiley

September 06, 2006

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General Motors (GM), battling to regain market share amid a financial battering that saw its U.S. auto business lose $10.6 billion last year, today announced an expanded warranty on all its vehicles intended to alleviate, if not remove, doubts that many consumers have about GM's quality being competitive with that of Japanese automakers.

The new GM warranty covers a vehicle's powertrain with no deductible for 5 years or 100,000 miles. The coverage is fully transferable and applies across GM's seven brands, beginning with 2007 models. The automaker also expanded its roadside assistance and courtesy transportation provided when a car is being repaired during the life of the warranty.

Though Ford (F) recently upped its warranty to five years, and Chrysler, Hyundai, and Kia offer 10 year or 100,000 mile warranties, GM believes it is offering the best coverage as the warranties offered by the Korean carmakers may not be transferred when the car is sold.

For years, GM stuck to its 3 year/36,000 mile warranty coverage on most vehicles. But it has increasingly been losing market share, as well as mind share, to Japanese brands that have better reputations for quality, as well as to Koreans, which have offered the longest warranties in the industry to make up for the bad quality they foisted on customers in the 1990s.

LONGER LIFE. GM sales and marketing chief Mark LaNeve says that the longer warranty is meant to play a role in enlightening customers about GM's quality ratings and close the perception gap between what people think of the automaker and how good the vehicles really are. "We can afford to do this because the gap between GM and the industry leaders is getting to be almost negligible," says LaNeve.

GM's warranty costs have fallen 40% in the last five years as GM has, among other things, increased the durability specifications on its cars. It used to be, for example, that key parts were designed to last only 80,000 miles. That has increased, say GM executives, to well over 100,000 miles, with many parts specified to last 120,000 miles.

In J.D. Power & Associates' Vehicle Dependability Study, which measures problems reported by customers over three years, GM has just two of its current brands, Buick and Cadillac, above industry average. Lexus leads the study. Toyota (TM), Honda (HMC), Acura, Ford, Mercury, and luxury brands such as BMW and Jaguar all rank well ahead of high-volume GM brands such as Chevrolet, Pontiac, and Saturn.

CATCH 22. In Power's Initial Quality Study, which measures complaints over the first three months of ownership, GM's Chevy, GMC, and Cadillac all rank above industry average. But Toyota and Honda still rank ahead, and Hyundai has passed GM in this study and even surpassed Toyota and Honda. J.D. Power is owned by McGraw-Hill (MHP), which also owns BusinessWeek.com.

Even though GM's brands still lag behind Toyota and Honda, the gap is much less than it used to be. And
GM hopes it can remove remaining customer doubts about GM reliability with the extra coverage. But beefing up a warranty can cut both ways. Some consumers interpret a longer warranty as a sign that the company's products are poor and have to be protected longer. GM's product chief Robert Lutz has expressed that opinion in the past when the issue of longer warranties came up.

The no-deductible, fully transferable, limited powertrain warranty covers more than 900 components related to the engine, transmission, transfer case (if applicable), and final drive assemblies on all 2007 model-year Chevrolet, Pontiac, Buick, GMC, Hummer, Saturn, Saab, and Cadillac cars and light-duty trucks sold in the U.S. and Canada.

CONFIDENCE, NOT PROTECTION. For nonpowertrain components, GM's bumper-to-bumper new vehicle limited warranty remains in effect: four years or 50,000 miles for Buicks, Cadillacs, Hummers, and Saabs, and three years or 36,000 miles for Chevrolets, GMCs, Pontiacs, and Saturns.

Eric Hirschberg, chief creative officer of Deutsch/LA, the ad agency creating ads to support GM's expanded warranty, says he has worried about customers taking away the wrong message. "No question that our research showed it could be taken that way." That's why the ad Deutsch created tries to hit notes of confidence in GM products rather than focusing on protection if something goes wrong.

In the lead TV commercial, cars are seen in traffic tie-ups in Los Angeles, Miami, New York, and San Francisco—markets where GM brands do poorly. GM cars such as the Chevy HHR, Corvette, and Silverado, the Cadillac Escalade and Buick Lucerne, levitate out of the traffic to the song "Get What You Need" from the rock group Jet.

VIRAL ADS. "We create a kind of freeway in the sky of GM vehicles…and these GM vehicles rock," says Hirschberg. He says he was trying to create the same sort of community feeling among owners of GM's cars in the ad as he has seen among Harley Davidson owners on the road when they see each other and give a thumbs up.

A viral aspect of the campaign includes films on YouTube.com that show GM vehicles in flight with a linked Web site to a fictional science expert who puts forth the idea that GM has solved the problem of getting cars to fly. "The warranty coverage is real, but it's important to create compelling and interesting content that people will be into," says Hirschberg.

This is not the first time GM has attacked the issue of consumers not giving the company credit for quality. A few years ago the company launched a series of print ads that, among other things, apologized for its quality not being good enough. It used the surprising mea culpa strategy to get people to read about the company's actual quality gains.

"NEW BLOOD." This effort followed disturbing research from J.D. Power that showed consumers believed that Volkswagen, for example, had much higher quality than Chevrolet, despite Power ranking Chevy much higher than the German brand for quality.

GM has in the past turned to Detroit agency McCann-Erickson, which also creates ads for Buick, to handle such corporation-wide efforts. But a few months ago LaNeve gave the assignment to Deutsch/LA. The agency's chairman, Donny Deutsch, has a nightly TV show on CNBC. And the agency previously handled Mitsubishi, and produced provocative campaigns for brands such as Ikea and Old Navy. "I wanted to get some new blood and new thinking into this issue for us," says LaNeve.

Now it remains to be seen if consumers are willing to believe that GM's quality is as good as it say it is.

To see those GM cars that scored well on J.D. Power's IQS and VDS, click here for the slide show.