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Warranty Providers Say Attachment Rates Unaffected By Falling ASPs

By Alan Wolf -- TWICE, September 28, 2009

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NEW YORK — Speaking at a recent investor conference, RadioShack chairman/CEO Julian Day said sales of extended-service contracts have slowed because “consumers are more willing to absorb the risk of something breaking as ASPs [average selling prices] decline.”

TWICE asked the leading extended-service plan providers if they agree with Day's assessment, and what they and their retail partners can do to encourage warranty attachments as CE and appliance prices continue to fall. Here's what they had to say:

Bruce Saulnier, president, AMT Warranty: Mr. Day's assertion may be more apparent in lower-ticket items, but we've actually found the opposite to be true with higher-dollar purchases. With high-dollar consumer electronics and appliances in particular, consumers are treating those purchases as investments — investments they want to protect. They can't afford to make a poor decision that's going to cost more in the long run, so more and more consumers are purchasing ESPs [extended-service plans] to safeguard their investment.

That's how we've been training our customers to approach ESP sales, and we've seen clear evidence that it's working. Some of our customers are even experiencing record years for ESP sales. With proper training and marketing, improved attachment rates are certainly attainable. A focus on sales training and sales incentives is a must at the sales associate level, and must become part of the organization's culture. Encouraging and teaching floor sales representatives the proper techniques to sell ESPs, along with register prompts, are the most important keys to improving attachment rates (the “ask”).

We've also found that compelling, attractive marketing materials and point-of-purchase displays clearly help drive ESP sales.

Kevin Rupkey, president/CEO, Bankers Warranty Group: We have seen that during difficult economic times, extended-service plans make even more sense in that they protect the customer from the unforeseen cost of repair or replacement of their product. In a difficult economy, consumers tend to be more risk averse, and are less inclined to take a chance in absorbing the risk of an unforeseen failure, specifically in the higher-ticket categories.

Understanding that extended-service plans have always been a “push” rather than a “pull” product, retailers need to deploy an effective point-of-sale strategy. Retailers that execute that strategy effectively will be successful in overcoming customer objections at the point of purchase. In fact, we have seen attachment rates remain stable or even increase in some cases as retailers have placed increased focus on the sale of extended service contracts on the retail sales floor.

Our clients realize that extended-service plans are a key component to increasing revenue and profitability during slower product sale periods. Even though product sales may decline in some categories, attachment rates should increase or at a minimum remain stable. This is due not only to the increased focus by management and an effective point-of-sale strategy, but also because the sales associates on the floor can spend more time educating the customer on the benefits of the extended warranty.

Again, it is critical that retailers have a well-crafted and executed point-of-sale strategy. This includes training and development for floor sales staff on overcoming customer objections that typically come up. Consumers should be properly educated on how purchasing the extended-service plan today will actually save them money tomorrow. At BWG [Bankers Warranty Group] we have deployed unique training and development strategies that leverage the popularity of social media as a means to connect with the sales staff on the floor. Through the use of our blog (**http://bwgtouchpoint.com**) we open up two-way communication between our training staff and the retail sales associates and leverage best practices and sales tips from the sales associates themselves.

Our use of Twitter (**http://twitter.com/BWGBulletPoint**) as a training and development tool also helps us increase the frequency in which we “touch” the individual sales associates on the floor, keeping the extended warranty sale at top of mind while delivering executable tips and strategies to overcome objections at the point of sale.

Matt Frankel, president, warranty division, Chartis Insurance [formerly AIG]: It's true that attachment rates have slowed due to price erosion, but not because the consumer is more willing to absorb risk. You will always get a higher attachment rate on a $3,000 product than on a $300 product. However, that same $199 contract that used to cover a $1,000 TV won't sell when the TV is $399.

Our job is to maintain the price-value relationship by adjusting the coverage, whether it's the length of contract or its features, such as in-home vs. carry-in service.

In this economic environment, with job security being an issue, consumers want to ensure that key components like the family TV will continue to work even if they don't, and that they will be able to afford repairs.

There is a certain segment of consumer that will always buy a service contract and there is a segment that will always say no. We have to continue to focus on the middle slice. Good dealers know how to sell by touting the benefits of extended coverage.

Joe Romano, senior VP, client services and business development, NEW Customer Service Companies: Actually, we've found the opposite to be true. For NEW, this economic climate has yielded a trend that's been consistent with past recessions. During times of financial uncertainty, we've found that consumers rely on ESPs to protect their investments and avoid unbudgeted repair costs down the road.

Undoubtedly, we have seen price compression on products and eligible units are down in many categories. However, at the same time over the past year, we've seen an increase in unit attachment rates of at least 10 percent across the board, with that rate in some categories being as high as 20 percent. Also, in a recent market study conducted by NEW, 50 percent of consumers who purchase extended-service contracts said that they expect to purchase the same amount of plans, if not more, over the next year during these economic conditions.

Today, attachment sales are directly related to the consumer's perceived value of the retailer's ESP. Is the price right relative to the cost of the product? What is the consumer getting for his or her hard-earned money? If retailers see their attachment rates drop instead of increase, there are definitely ways to help turn that around. Here is some of the advice we give our clients that may be helpful to others:

The cost of the plan has to be flexible and fit today's economy. Banding the pricing in small increments with diverse price points will keep costs competitive and be attractive to the consumer.

Also, adding additional features like accidental damage from handling (ADH), troubleshooting, interactive customer portals, and free shipping for depot services enhances the service plan and increases the value for the customer.

Consumers will also be more likely to purchase the ESP if they are aware of the features and benefits. Sales associates need to be trained beyond just asking the customer to purchase the ESP, and to highlight the key services and benefits the ESP will provide.

Chris Smith, president, Service Net Warranty: I completely disagree with Mr. Day's assessment. Service Net's clients have not experienced declines in unit penetration in 2009. Average service-contract retails have declined as a result of falling consumer electronics prices as service contracts are typically offered in retail price bands.

For example, contracts for LCD TVs between $1,500 and $2000 could have a retail price of $199, and contracts for LCD TVs between $1,000 and $1,500 could have a retail price of $149. As average LCD TV retails fall, so do average service contract retails.

What can you do about it? First, retailers must continually optimize their programs (examine the relationship of the price of the product and the price of the service contract) to make sure that price elasticity will not be exceeded and consumers cease purchasing agreements.

Second, as part of the optimization exercise, if you see an elasticity problem, consider offering shorter terms at a lower price to maximize consumer acceptance.

Third, the wholesale cost of the service contract may be too high due to the repair cost of the product. Consider changing the service method to lower the cost of the service contract. Many in-home service programs are simply too costly to execute, but depot service, carry-in service, and advance exchange with refurbished products are all less-expensive programs and can lead to attractive service-contract prices.

Finally, you may get to a point where servicing a product in any way is uneconomical. Short-term replacement programs are an option. Most service-contract providers use the salvage value of the product to offset the replacement cost of the new purchase.

This leads to attractive pricing and a “green” solution in handling the defect.

Now that you have the right price and program, offer the service contract at every consumer interaction. Whether the consumer calls, clicks or visits, promote prominently in the store, through the mail and by email, and you will be successful.

Michael Frosch, president, North America consumer products division, The Warranty Group: The cost of extended-service plans is falling in proportion to the decline in ASPs. So as the price of products drops, the cost to protect them drops as well.

In addition, the industry has expanded the price tiers for which a product can be replaced rather than repaired. The replacement business used to be centered on products like DVD players or personal audio that sold for $99 or less. Now you can get replacement coverage for purchases as high as $500. This changes the value proposition for the consumer and increases customer satisfaction, while bringing credibility and strength to the dealer. It also gives retailers the opportunity to offer such ancillary products as accidental damage coverage from day one.

The fact is this economy will continue to drive the desire for service plans. Consumers want to protect their large purchases even more in tough times. Their appetite for coverage doesn't shrink; they're willing to make a small investment today to avoid a big out-of-pocket expense later.

Our advice to retailers is to offer an extended warranty to every customer, regardless of the size of the purchase. ESP also stands for “every single person,” and every customer deserves to hear the features and benefits of these products, and to have the opportunity to decide for themselves if it's right for them.

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CHICAGO

— The Warranty Group (TWG), which last month celebrated its 45th anniversary, has expanded its coverage within the major appliance category.

Earlier this month the company's innovative solutions unit announced an agreement to provide extended-service plans for MC Appliance's Magic Chef line of white goods.

“We're excited to partner with MC Appliance,” said Mike Frosch, TWG's president/COO of North American consumer products. “Our shared strength in customer service has led us to create a high value program that makes it easy for customers to protect their purchases.”

Added Bob Weissman, customer services director at MC Appliance: “By partnering with The Warranty Group, [we] will be able to offer our customers outstanding extended warranty protection on their new appliance purchases.”

Extended-service plan coverage will offered nationwide, and MC Appliance customers may enroll for extended service plans directly at **www.thewgdirect.com/mcac**.

Besides its Magic Chef brand, MC Appliance also markets EWave and private-label appliances to mass merchants, major appliance retailers and the institutional channel.

Separately, TWG's insurance unit, Virginia Surety Company, is also providing underwriting and compliance services for Nicor Services, whose Home Solutions suite of customizable warranty plans covers residential appliances, heating and cooling systems, and utilities.

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