

How to save money When buying an extended warranty

- 12 key tips to consider
- Pitfalls to avoid

**Includes a negotiation secret that
Appliance Retailers don't want you
to know about that could literally
save you hundreds of dollars**

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About the Author

Alistair Gray



Alistair Gray has literally trained thousands of sales people working for some of Australia's largest retailers in the art of selling extended warranties. His experience and enthusiasm make what otherwise can be a boring subject come a live and real for participants of his programs.

As Alistair says "His total goal and focus is about helping young people be more successful in their sales roles and lives, by encouraging them to set goals and to focus on their own professional learning and development".

Having worked with extended warranties for more than six years he has developed a strong working knowledge of the industry and is well positioned to write this paper.

Alistair has had a strong association with Australia's leading extended warranty broking house IMC Associates Pty Ltd for whom he trains many of their clients.

For more information on Alistair Gray please go to <http://www.creatingsuccess.com.au>

Background

There have been many misunderstandings about extended warranties, about what they actually cover and the value of purchasing an extended warranty.

This booklet deals with extended warranties sold by Electrical Retailers and provides some valuable tips on

- How to save money when buying an extended warranty
- What to look for when buying an extended warranty and
- Some of the important pitfalls to avoid

Extended warranties simply offer the consumer protection in the event of a product failure. Often the media and other commentators over look the real value of extended warranties to many families. They focus on the bad news stories which are often well outside the control of the extended warranty company but rest firmly back with the manufacturer.

The good news stories are numerous and I think of two –

- The Officework's customer in Morley WA who gets a brand new lap top when it failed
- The Good Guys customer in Tuggeranong ACT who was so excited when she received a replacement vacuum cleaner and who raved about how good the service was.

The following pages don't focus on any specific retailer or product, but aim to provide constructive thoughts and help to anyone looking to buy extended warranty.

What is an extended warranty?

It is a service contract that **simply extends the core manufacturers warranty** out to 2, 3, 4, 5, 6 years or longer subject to certain conditions.

Often an extended warranty **will enhance the core manufacturers warranty** by **adding some additional valuable benefits** not normally covered under the manufacturer's warranty. In many cases the extended warranty will provide **more coverage** than the core manufacturer's warranty. This booklet will help you to identify what those are.

An extended warranty starts at the expiry of the manufacturer's warranty and covers manufacturing faults.

What does a manufacturer's warranty cover?

Warranty conditions are diverse and varied and so a consumer should always carefully examine the warranty.

As a generalization a manufacturer's warranties simply covers the **cost of parts and labour**. It also spells out the conditions under which the manufacturer will replace or repair a product.

What does a manufacturer's warranty normally not cover?

Again warranty exclusions are varied and diverse. The consumer needs to carefully **check the fine print**.

Most manufacturers' warranties normally **do not** cover such things as

- Wear and tear
- Accidental damage
- Parts delays
- Consumable items e.g. batteries, bulbs, ink cartridges
- Call out fees
- Shipping costs
- Transfer of ownership
- Computer viruses and software faults
- Normal product servicing

This list is far from endless and is intended as a brief guide only.

Who usually services a product under an extended warranty program?

Repairs are usually restricted to the product's authorised repairer.

When does an Extended Warranty usually start and finish?

An extended warranty normally starts at the expiry of the manufacturers warranty and finishes at the expiry of the agreed term of the warranty, or upon the replacement of the product covered.

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Should I buy an extended warranty?

The decision is purely economic.

Can you afford not to take out an extended warranty?

Manufacturers are building more and more electrical products that have a reasonable expectation of only just lasting the core manufacturers warranty. So buying an extended warranty can in a lot of situations be a cheap way of financing a replacement product. More and more products are becoming difficult to repair so the extended warranty company is forced into replacing the product.

Often when this happens you will get the latest model as the original product has long been redundant and this sometimes means you also get the latest “bells and whistles”

For the larger products that are repaired, often repair costs can be well over \$300 and the warranty cost is often less than the cost of a service call. To me that would make economic sense.

It largely depends on the product class, for example DVD players have a short life expectancy and a high claims level. Washing Machines and Dishwashers also have a very high level of service calls with up to 64% requiring servicing within the first 4 years of life. Plasma, LCDs seem to have high claims costs and in a number of situations product replacements are required. The taking of an extended warranty in these specific situations would be highly desirable.

Consumers often forget they don't take out car insurance to prang their car. They don't buy home and contents insurance on their house in the hope their home will burn down. In the same way with extended warranties you are protecting yourself against the possibility of an appliance breaking down and the potential cost of repairs, or the cost of having to replace the product.

What are the benefits of taking out an extended warranty?

- **Peace of mind** – you will have **no repair bills** for the warranty term.
- **Replacement Product** – if a product can't be repaired or it is uneconomic to repair a product the product will be replaced.

Lower valued products are often automatically replaced.

Often in two to three years time the original product is not available so the consumer will receive a similar product with similar features or a cash settlement is made. **This can often mean the consumer benefits by getting the latest product model as a replacement** which can often have more features and benefits than the original purchase. It must be stressed this will not happen in all cases.

- **Convenience** – you don't have the worry of having to
 - Find out who your local repairer is
 - Whether the repairer is going to rip you off, or
 - Whether the repairer is reputable

This is the extended warranty company's problem. They pay the bills and if a repairer fails to perform they will be removed from their authorized repairers list.
- **Protects an investment** – this is particularly so with higher cost products

What are the disadvantages of taking out an extended warranty?

- **The initial up front cost - see** the discussion above “Should I take out an extended warranty”
- You have little control over whom and when repairs are carried out
- Possible delays in getting repairs completed or a product replaced as a result of having to go through a third party to manage your claim

What to look for when buying an extended warranty

There are numerous warranty programs in the market with each one being different. Many consumers make the mistake in looking for a cheap extended warranty. Unfortunately, you only get what you pay for and when they come to claim they are often disappointed.

All extended warranties cover the cost of parts and labour so what else should you look for?

1. Does the extended warranty cover fair wear and tear?

This will protect you when a product fails in the course of normal use.

Not all programs include wear and tear coverage but without it you are significantly increasing the risk of your claim being declined.

Ask to see a copy of the warranty terms and conditions to ensure this is included. Do not rely on the sales assistants verbal representations as they sometimes can be misleading.

Beside common faults coverage other faults included would be such things as the failure of remote controls, buttons that stick, failure of fridge seals, retractable power cords on vacuum cleaners, etc.

2. Does the warranty provide in home service for large appliances?

For the purpose of this discussion large appliances means - Fridges, Washers, Dishwashers, Dryers, 51cm TVs and above, Plasmas, LCD screens.

You should **check that the cost of call out fees is covered?** Some plans do not cover call out fees. This can add another \$60 to \$120 to the cost of the repair.

In some cases it will be necessary to take the appliance back to a work shop for repairs or special monitoring in the case of intermittent faults. You should ensure all these transport costs are covered and have a firm under taking from the repairer as to when the appliance will be returned.

3. If buying a Fridge or a Freezer does the warranty cover the cost of food spoilage in the event of breakdown?

For families the cost of replacing a fridge full of food can be a lot so coverage here is well worth looking for.

Coverage is normally available up to about \$250 depending upon the retailer chosen.

4. For smaller appliances does the extended warranty cover the shipping cost of sending a small appliance to an authorised repairer who is not in the consumer's local area?

Some companies will pay the freight if under a certain weight or if the consumer lives more than 25kms away from the authorised repair centre.

5. For smaller appliances when they break down are they automatically replaced?

Check the store extended warranty policy here. This can save you a lot of money and time. With many small products having a short life expectancy taking an extended warranty here can often be a very cheap way to get a new one.

Not all retailers offer a replacement program for small appliances. There are retailers who will provide replacement cover for all products up to \$500 in the event of breakdown in the extended warranty period. The level will vary by retailer. A common figure is around \$300.

6. Can I transfer my extended warranty?

Not all retailers offer this option.

This is particularly valuable to those consumers who are buying larger products or computers and they want to sell them later.

Having a transferable extended warranty can significantly enhance the sale prospects of the product in the second hand market.

For example if you were to buy a laptop on E Bay, which one would you buy? One that had a warranty with it! Or one without! You bet you would buy the one with the extended warranty attached. This means you are more likely to sell it, and more likely to attract a better second hand price.

7. Does the warranty provide for unlimited repair claims?

This is very important.

Some extended warranty programs limit the dollar value of claims so that the cumulative value of all claims can be no greater than the value of the original product purchase.

This means for example you buy a TV. It breaks down the first time and the cost is \$250 to get it repaired. The second time it breaks down it costs \$250. Finally the TV totally dies and it can't be repaired. Unfortunately, there is no money available under the extended warranty to buy a new TV. You lose out.

Please ensure you **only buy warranties that offer unlimited repair claims or have in place a No Lemon Policy**. A no lemon policy is where the customer has three repairs and on the fourth fault they automatically get a brand new product.

Be careful though as some retailers offer "No Lemon" provisions but the same component must fail three times before a replacement is made. Look for the retailer who offers a no lemon policy that starts from date of purchase and covers any three faults not the same fault.

8. Does the extended warranty program offer access to a nation wide repair service?

Some retailers will limit repairs under these programs to the shop of purchase or retail chain.

It is important to ensure you can get access to repairs within any major metropolitan area in Australia.

While not necessary in most domestic circumstances, consideration should also be given to trying to find an international warranty if you are traveling a lot and need that sort of coverage for computers and cameras.

9. What is the “Cooling Off” Period?

Consumers should look for those retailers who offer long “cooling off” periods when purchasing the warranty. Under current legislation retailers are only able to offer extended warranties at the time of purchase of a product.

This means that if a consumer gets a product home and then after using the product decides they want to protect themselves and take out an extended warranty they can't. Retailers are prevented by law from selling the extended warranty after the product has been sold.

With the “Cooling Off” provisions consumers are protected as it is like “try before you buy”. You can purchase the warranty, go home and try the product, read the terms and conditions, discuss them with your partner or friend and if unhappy in any way return the product within the agreed time frame.

Care should be taken as not all retailers offer a “cooling off” period.

Most reputable retailers offer between 14 and 30 days as a “cooling off” period where you can return the Extended Warranty.

10. When is the customer service line available to lodge my repair claim?

Some warranty programs offer access to a service line seven days a week where as others are available only Monday to Friday.

It should be remembered in almost all situations repairers only work Monday to Friday, and sometimes Saturday. Usually there will be a service delay of at least 24/48 hours from lodging your claim before you can reasonably expect a repairer to be on site.

11. Does the retailer offer you a detailed brochure setting out the terms and conditions of the extended warranty?

If they can't show you a detailed terms and conditions brochure don't touch the warranty. It is probably not worth the paper it is written on.

Remember, if you have to make a claim in 3 or 4 years time will you know what is covered under the warranty and how you should claim?

12. Who is behind the warranty program?

This is a very important consideration.

Will the retailer offering your extended warranty program still be around in 4 years time when you want to lodge a claim? What happens to your warranty if the retailer goes out of business?

Retailers running their own extended warranty programs have enormous contingent liabilities which can last for 5 or 6 years. This means they have to have cash set aside to meet your claims in the future where repair costs and cost of replacement could be significantly higher than market costs today. This requires very special and careful management.

It is very important that your extended warranty is underwritten by an internationally rated assurance company. This insures your claim in 5 years time will be met and you will have “**total peace of mind**”.

How to save money when buying an extended warranty

Extended warranties and other add on sales like rental agreements and term sales are **very valuable to electrical retailers**. Generally the margins on core electrical product sales are very small, often less than 10% and so valuable profits are generated through products like extended warranties where the retailer has no stock holding cost and a high profit margin. It is generally for this reason warranties are **not** normally discounted.

Electrical retailers generally make their money through volume discounts and manufacturer rebates along with add on sales like extended warranties. Retailer's margins on warranties usually range from between 40 and 60 percent, sometimes more, sometimes less.

This is important to understand as **it is often better for the retailer to trade an extended warranty to ensure the sale is made rather than to give a straight discount**. At least by trading the warranty the retailer has an opportunity to rebuild their margin whereas giving a discount is a straight loss for the retailer.

So what does this mean for you the consumer?

- 1) **Always ask for a discount** when buying an electrical product
- 2) **Don't accept the first offer**
- 3) **Always haggle to get more**
- 4) **Shop around** so you know what the market price is for your intended purchase
- 5) **Be prepared to trade a warranty rather take a discount** as the overall value to you will be greater than the cash discount

the retailer is able to offer. Remember the retailer can offset the loss by the value of the margin built into the warranty and so is more likely to offer you this option than a large discount. You will be often way ahead by taking the warranty.

- 6) It is a win, win situation for both consumer and retailer. **You get the enhanced benefits of the extended warranty included below the normal price of the product** and the retailer makes a sale at a better overall margin.

Negotiation Tip

When buying an electrical appliance ask:

Is that the best you can do?

Ask a second time

Is that the best you can do?

Then

Are you telling me we can't do business today if we don't pay \$XX?

When says "No I am not saying that."

Then ask again

Is that the best you can do?

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What are the two most common misunderstandings about extended warranty programs?

- **Parts delays**

Manufacturer's warranties and extended warranties **do not cover parts delays.**

Under the Trade Practices Act manufacturers are required to hold sufficient parts to meet potential repairs.

These days with globalization many manufacturers hold parts offshore. This seems to be more common with the large expensive panel televisions. This can result in lengthy delays. Sometimes in remote cases a consumer may have to wait up to 3 months or more. This is not the responsibility of the extended warranty company but rests firmly with both the Manufacturer and Retailer. Remember though you are still in a better position than not having an extended warranty.

The extended warranty companies' responsibility is to **pay for the cost of repairs or product replacement** when a product can not be repaired. It is not responsible for the delays in getting parts so a repair maybe commenced.

Despite this, in some cases extended warranty companies have been very successful in negotiating some excellent out comes on behalf of their customers where long delays have been forecasted by manufacturers. This has included negotiating product replacement rather than waiting for repairs. This would not otherwise been achieved by consumers who did not have the benefit of an extended warranty.

- **Service delays**

These can be

- Phone delays in getting through to the extended warranty company's help line
- Delays in getting repairs authorized
- Delays due to parts not being available (see above)
- Delays in getting a service man on site
- Delays in getting work shop repairs completed

Phone delays - Yes, from time there will be delays in getting through to the various extended warranty help lines and the various companies are constantly trying to improve their telephone service. Some companies offer message bank services and leave an email address to try and alleviate some of these difficulties.

Unfortunately, repair claims are often seasonal in nature making it very difficult to manage from the Claim Administrators point of view. There is a fine balance between increasing warranty premiums to fund more telephone lines and claims personnel and providing a reasonable level of service.

Call delays will often be experienced after a long weekend, Easter, Christmas Holidays as everyone holds off getting repairs completed. Then everyone wants something done at the same time. Consumers also forget that repairers like to go on holiday too and that causes delays at certain times of the year. Experience would show consumers are best to avoid ringing to lodge repair claims first thing on Monday morning or Friday afternoons. Warranty companies are constantly working on improving services and in minimizing delays.

Repair Service delays – most extended warranty companies use the services of authorized repairers for repairs. This means that consumers will go in to the normal repair queue in the same way as if they had an extended warranty or not. As such, consumers are subject to the usual vagaries of repairers as to when repairs are completed. The extended warranty company will book the repairer so as to define what work they are prepared to pay for. This may also be to arrange reports in the case that major repairs are required so they can make an economic decision as to whether to replace or repair.

Most extended warranty companies do not monitor the progress of repairs from a service perspective. Their responsibility is basically **limited to paying the repair costs or on receiving a report that a product can't be repaired and then arranging a replacement product.**

The responsibility for chasing up repair delays rests with the consumer not the extended warranty company. Many extended warranty companies will try and assist. However, this in reality is just a value added service and more of a good will thing than a responsibility

In Summary

Extended warranties can provide you with valuable protection against large repair bills or unforeseen product replacement.

Care needs to be taken to ensure you are getting the protection that you are paying for. This unfortunately means reading the fine print and in only dealing with reputable retailers who will stand behind their warranty program.

Check key things like –

- Do they cover wear and tear?
- When will they replace a product?
- Do they cover call out fees/ transport costs?
- Who does the repairs?
- How long does it take to get repairs done or a product replaced?
- Do they cover unlimited repair claims?
- Is there a cooling off period?
- Is there a product brochure setting out the terms and conditions?
- Can I transfer the warranty on sales of goods?
- Is the warranty program underwritten by an internationally rated assurance company?
- Reputation of retailer – will they stand behind the warranty?

If you follow these simple rules you will have the “peace of mind” of knowing you are well protected.

Finally, don't forget to ask for a discount on your electrical product purchase, the discount will often cover the cost of the warranty.