

Service Contracts Offer More Value To Our Customers Today Than Ever Before

By Tony Dupaquier



In order to overcome objections, business managers need to be prepared for today's educated buyers by educating themselves on service contracts and the advantages a service contract has over the manufacturers' limited warranties.

"It costs too much."

Compared to what? Gasoline costs Americans an average of 10 cents per mile. Automobile insurance costs about 16 cents per mile. If someone does not maintain a vehicle—no new tires, no oil changes, no new brakes—and purchases only the two critical items—insurance and gas—that person is spending about 26 cents per mile to drive. A service contract costs less than three cents per mile. Three cents is close to one-tenth the amount of money it costs to drive the vehicle on a daily basis.

Do customers realize how inexpensive a service contract is when compared to gas and insurance? It is doubtful. Therefore, it is the responsibility of the business manager to inform them of this.

When the customer asks the question, "How much is it?" give a number. It can be the full amount, "\$1,783," based on monthly installments, "Only \$18.50 a month," or on a per mile amount, "Less than three cents per mile." Break the amount down to something small and almost meaningless, "Less than a bottle of water a day," or, "One less pizza delivered every month," because that is how small it really is.

Maximizing verbal communication is also important. A

business manager's voice must not apologize for the cost of the service contract. If it sounds as if the business manager is ashamed or embarrassed of the price, he/she will not sell anything and may be in the wrong business.

"They don't cover anything."

Some cheap, component-coverage-only contracts may not cover much except for major lubricated mechanical items. The majority of customers who have this concern may have received it from purchasing a service contract from someone who sold them the least expensive contract but charged them for the most expensive one. Do not do this. The automotive industry has a hard enough time with public perception. Doing things like this only perpetuates the image. When selling an exclusionary policy, ensure the customer receives it. Doing business the other way only brings heat from the customer and the service department.

Exclusionary policies sold today have more benefits than many of the manufacturer's limited warranties. The manufacturer only covers defects. A defect is a bad part or a bad assembly of a part that occurred in the factory. The manufacturer's limited warranty does not cover a failure. A failure results when a part no longer operates according to factory specifications, usually due to normal wear and tear. A business manager must know the difference.

In the past, when a customer arrived at the service drive, he/she told the service advisor what the problem was. After a quick check of the mileage, year of the car, and to see if the vehicle's warranty was valid, the service department attached a tag and fixed the car as soon as possible. Manufacturers have since changed their procedures. Most business managers know this if their dealership has ever gone through a warranty audit. Service advisors are now



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trained to look for failures as opposed to defects. In many cases, the manufacturer's limited warranty does not cover failures. However, with the majority of the exclusionary service contracts now available, many of those failures would be fixed.

Remember when customers received a complimentary rental car when their vehicles were in for service for an overnight repair? Imagine the amount of money spent on rentals during that time. The manufacturers, for the most part, have reduced this coverage or have eliminated it all together. The few manufacturers that still offer some form of rental reimbursement are some of the luxury brands. However, for everyone else, the customer's car must be in the shop overnight for warranty work, exceeding eight hours of labor, which usually means the repair is major, like an engine rebuild or a transmission fix. Many of the repairs in shops are done in under three labor hours, but it is required that the vehicle sit at the store for two days until the parts arrive or a technician is free to work on the vehicle. For the majority of customers, the only way to receive any type of rental car is through a service contract.

Roadside assistance is also changing. With the evolution of satellite navigation and GPS locators, roadside assistance is now an electronic eye in the sky and usually costs a yearly fee. Many cars without these high-tech luxuries are left out of roadside assistance programs. A good service contract comes with roadside assistance and trip interrupt service, ensuring the customer's safety in the event of an unforeseen problem.

Between failures, rental cars, and roadside assistance, it is easy to see the need for a service contract during the manufacturer's limited warranty period, and it is the job of the business manager to ensure the customer realizes the value as well.

"I was told not to buy one."

By whom were they told not to buy one? Was it the credit union, the insurance company, a consumer magazine, the Internet, or an association group? One reason these sources tell the customer not to buy one is so that they themselves can sell their own product. Compared to the service contracts available through the dealership, these service contracts are likely worthless policies.

Product knowledge

A business manager must have knowledge about the service contracts offered by these other sources. The majority of the information is available online, or a phone call may be required to gain additional details. From my research, here are a few of the major differences between the service contracts dealerships offer and the contracts offered by other sources.

Reimbursement policies: Several of the service contracts are 100 percent reimbursement policies, in which the customer must pay up front for the repair and then apply for a reimbursement. As with any policy, the repair must be approved. Is it only after the repair is made that the customer finds out if it is approved?

Labor hours: There are several policies that will only pay labor hours according to an internal guide. The service contract provider does not use the same labor guide as the manufacturers or books used nationwide, like *Chilton*. Therefore, many dealers will refuse work from certain service contract customers because their policy will not pay for the work at the dealership.

One service contract advertised on the Internet revealed, in very fine print, that it only covered parts and not labor. Parts? Only parts? Granted, there are several parts on today's vehicles that could cost a considerable amount of money, but I would be scared to see the labor cost associated with them. Consider a Repair Order (R.O.) ticket with a \$14 part and 4 labor hours to have the piece installed.

Service contracts offer more value to our customers today than ever before. With good, competitive product knowledge and a true understanding of what the manufacturer's limited warranty covers and does not cover, a business manager's service contract sales should dramatically increase by passing this knowledge on to customers.

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