Who’s Buying Extended Service Contracts?  
Four Ways to Attract High Value Consumers and Keep Them Coming Back.

In the new marketplace, information is power, and consumers aren’t afraid to use it. Today’s super-educated, tech-savvy consumers have changed the buying experience. Shoppers come armed with product reviews and price comparisons, and they know exactly what they want. Empowered by knowledge, these customers don’t want or need a "hard sell." They simply expect good service and a quality shopping experience.

Extended service contracts can be an important part of the value-added experience consumers have come to expect, if offered the right way. Assurant Solutions, a leading global provider of extended protection programs for major retailers and manufacturers, conducted a study of consumer buying habits related to extended service contracts for consumer electronics and appliances. The study resulted in four recommendations that could provide new insight into the way you think about your extended service program.
The Findings

Many consumers know about extended service contracts and already have an opinion about them. The survey revealed that 55 percent of those who purchased an extended service contract expect to buy one before going to the store. Those who waited until the point of sale asked educated questions about coverage (28%), length of contract (25%), specific problems covered (6%) and issues not covered (5%).

ESC Purchase Decision Process

**Consumer Electronics**
(base = 232 - those who purchased at least one consumer electronic product)

- All decisions were made prior to going to the store: 55%
- All decisions were the result of the sales associate: 24%
- Some decisions were made before going to the store and some were the result of the sales associate: 15%
- All were purchased directly, not from the retail store: 3%
- Don’t recall: 3%

**Major Appliances**
(base = 73 - those who purchased at least one major appliance)

- All decisions were made prior to going to the store: 55%
- All decisions were the result of the sales associate: 23%
- Some decisions were made before going to the store and some were the result of the sales associate: 11%
- All were purchased directly, not from the retail store: 8%
- Don’t recall: 3%

In this new era of smarter consumers, retailers must be smarter about how they sell. Get to know the spectrum of consumers you serve and be ready to address a wide variety of familiarity and understanding about protection products. Train sales professionals to be knowledgeable about their ESCs in order to answer detailed questions from shoppers actively seeking extended protection. Likewise, they must be able to introduce the product and its benefits to those who are unfamiliar with the product early in the discussion about the customer’s purchase.
Many consumers do not purchase extended service contracts simply because they were never offered one. While the survey revealed that many respondents were already considering an extended service contract before entering the store, a sizeable minority was influenced by the sales associate or never offered the opportunity to buy one.

The survey found that 39 percent of respondents who purchased consumer electronics and 34 percent of respondents who purchased a major appliance say the sales associate was the primary reason for their purchase of at least one contract.

Nineteen percent of respondents said an extended service contract was never offered. Clearly, opportunities to sell these contracts are being missed.

Missed opportunities to sell extended service contracts mean lost revenue for retailers, but they also represent a missed opportunity to strengthen customer relationships. People who buy protection plans are more than twice as likely to recommend the supplying retailer to others, according to a 2010 consumer survey conducted by Assurant Solutions.

The majority of respondents willing to purchase an extended service contract prefer to do so in the store, with more than 70 percent choosing this method, according to the 2010 survey. Since ESCs require a tangible offer, reminding sales associates that these plans create real value beyond the traditional break/fix model is an important way to keep them top of mind and give associates the confidence to make the offer.

Smarter consumers prefer this value-added approach and want to know their service contract will enhance the value of their product as well as provide protection and peace of mind. By creating value for the consumer, you create brand loyalty for your store. ESCs provide a way for retailers to connect with consumers beyond the point of purchase and reinforce their brand. This added brand connection increases the likelihood that the consumer will return to your store the next time they are ready to buy.
Early adopters are always first in line to pick up a product, and they are willing to pay a premium to be at the front of the technology curve. Likewise, they understand that the latest gadget may malfunction and have a shorter life span than the versions that follow.

Forty-nine percent of survey participants who identify themselves as early adopters say they always purchase an extended service contract when one is offered. Consumers between the ages of 18 and 29 are most likely to be early adopters (42%), followed by those between the ages of 30 and 49 (33%).

Significantly, the survey reveals that 91 percent of early adopters purchased at least one ESC. It seems clear that the sooner a consumer is willing to adopt new technology, the more likely they are to purchase an extended service contract.

Today’s new consumer electronics and appliances have become more sophisticated and more difficult to self-repair. Early adopters and other consumers rely on extended service plans to solve problems after the manufacturer’s warranty expires.

Service plans may also offer 24-hour technical support, remote diagnostics, product installation and on-line data backup coverage. These services are critical to the early adopter, especially during an initial release.

All consumers are potential buyers of extended service contracts, but the reality is that not all will make the purchase—and for many it depends on the product. Although ESCs often receive critical scrutiny from consumer advocates, non-purchasers did not cite negative perception or cost as primary drivers for declining to purchase. The main reason cited for choosing not to purchase a service contract is a preference to replace rather than repair computers, smart phones, laptops and washing machines. For home entertainment systems, dryers, dishwashers and refrigerators, many consumers believe the product will last long enough.

Understanding these decision drivers gives retailers an opportunity to convert non-purchasers into purchasers by highlighting the gaps in coverage between the manufacturer’s warranty and ESC coverage. Consider creating opportunities for consumers to bring in their products for service to avoid in-home service fees. For consumers who replace products frequently—such as early adopters—promoting the benefits of technical support or a trade and upgrade program may also prove attractive.

Primary Reasons for Declining an Extended Service Contract

- I would prefer to replace this with a new product rather than repair it. 52%
- Products last long enough. I would not need an extended service contract. 32%
- I would not need an extended service contract. 35%
- Did not purchase an extended service contract for any products 23%
- Purchased an extended service contract for some products but not all 35%
Embrace the Smarter Consumer.

We now live in an era where information is readily available and accessible. Consumers are using this information to their advantage by becoming smarter shoppers. This presents both a challenge and an opportunity for retailers as they battle for customer loyalty.

In adapting to the new consumer, retailers must find creative ways to keep consumers engaged. Sales people — serving as both adviser and ally — must guide consumers through the buying process.

Effective retailers must learn to balance educating the consumer with driving sales. By meeting consumer needs, retailers can strengthen their relationship with their customers and increase their bottom line. Extended service contracts represent a valuable currency for doing both.

Consumers want them to protect their investment against unexpected repair costs and product failure, and retailers sell them to increase brand loyalty and enhance revenue. Retailers can also tailor these plans to meet the changing and complex demands of today’s consumer.

Most of today’s educated consumers still rely on the sales associates to offer extended service contracts and provide answers to questions about the value they provide. In addition to providing significant revenue opportunities, extended service contracts provide valuable benefits that enhance brand loyalty and keep consumers engaged for years to come.
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**Extended Service Contracts for Consumer Electronics and Major Appliances: Purchasing Habits and Trends**

**Survey Process and Procedures**

Data for this study was captured through an online survey sponsored by Assurant Solutions and conducted by Advantage Research, Inc., a reputable national panel provider. Panel members in all 50 U.S. states were sent survey invitations by the panel provider. Survey participants were required to be 18 years of age or older and must have purchased an electronic device or major appliance within six months prior to the survey.

In order to obtain balanced results, Assurant Solutions sought to compare equal measures of those who had purchased extended service contracts and those who did not. Fifty percent of the surveys in the study were completed by those who purchased an extended service contract for at least one of the items they purchased. The other half of the study includes surveys completed by those who purchased no extended service contracts at all.

The study is based on 502 completed interviews - 253 that purchased extended service contracts and 249 that did not. The study was completed in December 2011.