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Certified Buyers Opt for Extended Service Contracts

Automotive News, p. 28

May 5, 2008

By Arlena Sawyers

Dealers, automakers and vendors are finding a growing market for extended service contracts: buyers of certified used cars and trucks.

“Wraparound” service contracts augment factory-backed warranties of certified vehicles. They cover what warranties generally don’t: components other than powertrains. Owners of certified vehicles can get bumper-to-bumper protection by adding a few dollars to their monthly payments.

Dealers say they like the extended contracts because they are a profit source, help keep service departments busy and build customer loyalty.

“Happy customers will refer you to other customers and return to your store,” says Larry Taylor, owner of Beau Townsend Ford near Dayton, Ohio. “And selling extended warranties and certified cars has helped us maintain” customer satisfaction.

Last year Townsend’s dealership sold 862 certified Ford cars and trucks, No. 3 among Ford dealerships. Townsend says buyers of 71 percent of those vehicles also purchased factory wraparound contracts.

Profit center

Prices of extended service contracts for certified vehicles vary widely depending on model, type of contract and amount of warranty coverage remaining. One dealer who asked not to be identified says dealers typically pay \$300 to \$700 for wraparound contracts and sell them to consumers for about \$700 to \$2,500.

Dealers pay about 30 percent less for contracts that cover steering and brake systems but exclude powertrains, an industry source says.

In 2007, buyers of about one-third of all used vehicles sold at franchised dealerships chose a service contract, according to J.D. Power and Associates’ Power Information Network. Power did not have a penetration rate for certified vehicle contracts.

Glenn Roberts, a training executive at Zurich North America Commercial's Direct Markets unit, says buyers of certified vehicles often buy service contracts for the same length of time and mileage as the factory powertrain warranty. "If there is a 5-year/60,000-mile or 7-year/70,000-mile powertrain warranty, that is typically what you'll see for the wrap," Roberts says. "There needs to be some underlying coverage. Otherwise the wrap is sitting there by itself."

Zurich North America, of suburban Chicago, sells extended service contracts to dealers. The company declined to say how many contracts it sells for certified cars and trucks.

Roberts says wraparound coverage generally covers electrical parts, which generate the problems that send most customers to service departments.

Dealer Taylor says extended contracts tie buyers of certified vehicles to his store for service. He says he marks up the retail cost of the contracts, "but not a great percentage."

"We can't stay in business selling people one vehicle," Taylor says. The certified service contract coverage "really enhances our repeat business."

Patrick Donahue is president of Resource Dealer Group Inc., a service contract administrator in Chicago. He says wraparound contracts are increasingly popular among consumers who buy late-model certified vehicles rather than new cars and trucks.

"There is a tremendous amount of traction for that kind of transaction in today's market," he says.

Gaining traction

Forrest Heathcott, president of **JM&A Group**, says dealers also offer owners of certified vehicles maintenance contracts that cover such items as tires, wheels and theft deterrent systems. **JM&A**, in suburban Miami, supplies finance and insurance products to dealerships. "These products add value for the customer during ownership of the certified pre-owned vehicle and do not conflict with the certified warranty coverage," he says.

Brian Benstock, general manager of Paragon Honda in New York, says buyers of certified cars and trucks have high expectations of vehicle quality. As a result, he says, some customers have misconceptions about which components a factory warranty covers. A wraparound warranty fills the gaps, he says.

"Our customers find it worth the investment," Benstock says.



Last year, Benstock's dealership sold 1,542 certified Honda cars and trucks — the most of any U.S. Honda dealership. More than 75 percent of those buyers purchased a wraparound contract sold by Honda, he says.

Will Amiri, pre-owned sales manager at Longo **Toyota**, says the suburban Los Angeles dealership sells 300 certified used vehicles each month — the most of any U.S. **Toyota** dealership. Certified vehicles are covered by **Toyota's** powertrain warranty — 7 years/100,000 miles from when the vehicle was sold as new.

Amiri says **Toyota Financial Services** offers a wraparound contract that provides more comprehensive coverage. “If you're concerned about your power windows, your stereo, your power seats, you get the comprehensive coverage,” he says.

About 60 percent of Longo's certified customers buy the added coverage, Amiri estimates. “We introduce it to every single guest.”

That's a wrap

Dealers cite these advantages of selling extended service contracts for certified used cars and trucks.

- The contracts provide more profit for the dealership.
- They generate work for dealership service departments.
- They build customer loyalty by covering repairs that factory warranties don't.

