# Customer Needs and Desires vs.
# Warranty Entitlement / Product Protection Plans.
# A Case for Post Installation Support Programs
# Driving Customer Loyalty and Continued Revenue

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# **Present Business Case**

- Highly successful protection plans are sold at all levels of consumer electronics retailing and e'tailing*. US market estimated it at about $4billion to $7billion annually.*
- Plans are sold as add on to a product at point of sale.
- With gross margins of 50% or more, these sales add greatly to the retailer's gross profit and bottom line profit*. The Wall Street Journal reported*[1]*, "…they're extremely profitable for retailers, who can sometimes churn out 60% to 70% operating profits on them, compared with the 10% or so they may make on merchandise sales."*
- The vast majority of plans are backed and underwritten by insurance contacts, administrated by Third Party Providers*. In 1989, a group of U.S. companies offering extended service contracts covering consumer products formed the Service Contract Industry Council (SCIC) www.go-scic.com*
- Third Party Providers may provide call center and claim management services.
- They may also offer a service provider network for the end consumer when a remedy is required.
- These plans are all *PRODUCT BASED* and only provide for a *REPAIR OR REPLACEMENT OF THE PRODUCT* should a confirmed failure occur.
- Added values over and above the product based failure are not funded.
- Many times these product protection plans are not recommended by consumer groups as they are not seen as a good value due to very high product reliability and the disposable nature of many products. Consumer Reports' *long-standing advice is to pass up this costly add-on.*
- Higher priced and higher technology products are the best category for extended service plans the consumer. *Consumer Reports: Possible exceptions include three types of TVs: micro display rear-projection, flat-panel, and LCD models.*
- In this category, consumers require additional support in areas not covered by product protection and break/fix solutions.
- All product entitlement and protection plans are REACTIVE in nature; they wait for the consumer to be dissatisfied and to look for help.
- A Gap exists between this traditional support process and present consumer needs and desires.

[1] The Wall Street Journal, "Consumer watch: No, Thanks, on That Extended Warranty", Jan 11, 2004. Pg. 4.

# The Gap

- Consumers with high technology HDTV display, home theater, and home integration devices require additional support in areas other than product failure solutions.
- Installation, integration solutions, multiple source and formats of content, and a very high learning curve all drive additional consumer education and service demand. *Still, after spending thousands of dollars on fancy new high-definition televisions, owners commonly don't even watch shows in HD programming, according to Bruce Leichtman, principal analyst at research firm Leichtman Research Group. "Call it cognitive dissonance or ignorance is bliss, but most households, about two-thirds, aren't watching shows in HD even though they think they are," Leichtman said.*
- The mass market retailer has a primary focus on product, selling boxes, and point of sale simplicity.
- The CE Pro dealer and Custom Home Integrator are focused on providing a service and delivering clients a total solution.
- The TPA is focused on post sale product solutions and managing costs.
- All know about the GAP in the present business process as they all are being inundated by consumer demand for more services.
- The solution required a focus on the client and their experience, not the product or system.
- To date, none have figured out how to solve the problems.
- This is what drives the opportunity!

# Cost of the Gap

## No Customer Loyalty or new revenue is created by a reactive solution

- The retailer experiences added costs in after sale consumer support, loss of customer loyalty, and return goods logistics.
  *The CEA estimates CE returns in 2005 were $15 billion.*
- The CE Pro dealer, installer, integrator fails to manage their labor costs effectively, reacting to a customer request for immediate support.
- The business model of the CE Pro dealer, installer, integrator often makes post install add on sales hard to accomplish; driving these client revenue opportunities to traditional retail outlets.
- The TPA experiences additional costs in call center operations and bogus product failure claims.
- Even the manufacturer experiences additional costs in after sale technical support and bogus warranty claims. *The CEA manufacturers report: CE defective rates average 1.6% yet claim run at an average of 3.5%.*
- This is multi Million dollar issues in our industry and will grow to a Billion dollar issue in the next several years. *CEA reports - 15% of CE good returned are actually defective. Estimated markdowns on CE products = $450 million in 2005.*

# Services Solution to fill in the GAP.

- *Service Contracts*, while widely used in product support in the commercial or B to B business world, they are relatively unused in the consumer marketplace.
- *Service Contracts*, and/or *Membership Services* provide not only product support; they can provide a variety of value added solutions to the customer.
- Solutions can be focused on, and fine tuned to the requirements of the client.
- Solutions can add value with pro active elements that enhance the customer experience. *Focus on Picture quality enhancements via ISF calibration, recommendations on upgrades, etc.*
- Solutions can include pre scheduled maintenance and services via proactive customer contact.
- A dedicated client knowledge data base and communication channel drives customer loyalty.
- A pro-active logistics system can aid the CE Pro dealer, installer, integrator to better manage their existing workforce.
- Solution providers are seen as the wellness folks and can take an objective view in recommendation of new products and services.

## Focus on Solutions

- While both protection plans and service contracts cannot provide all things to all customers, a focus will be required.
- A focus on a key group of consumers will be required
- Guessing on what the customer wants or needs is not an option with service contracts.
- The focus will be a group of high technology, HDTV, and home integration users who believe that their 'system" is MISSION CRITICAL to their lives. *Internet connectivity would be the last thing a consumer gives up over all other utilities, making it "mission critical" to their lives.*
- Sell Service Solutions will focus on the end consumer's needs and desires by using a proprietary conjoint analysis tool called **CAST* to develop and market new service solutions**.
- In addition, sales force training and selling practices are developed using the **CAST** tool.
- **CAST** also provides tracking and data bank services deployed to shorten length of sales cycle and new service product development.
- Sell Service Solutions is also developing a web based technology solution for services delivery; "feet on the street", call center and knowledge base providers.
- Presently Sell Service Solutions and ServicesRevenue™ are engaged in doing consumer research studies using the CAST tool. If you are interested in a research study in this area and have a good data base of customer's that fit our demographic, please contact us.

## Results

**Service Programs developed by Sell Service Solutions will solve the existing gap in customer support. Providing the CE Pro channel players with a solid post install exit strategy, these Service Programs will create new revenue streams, add on sales opportunities, reduced costs, and enhanced customer loyalty.**

***CAST** is a Conjoint Analysis and Simulation Tool.
**"Measure, Don't Guess"!**
Developed by ServicesRevenue™, this tool has been used successfully for several years in the B2B world at Agilent Technologies, Curtiss-Wright Controls, Gateway, Motorola, Schlumberger, Sun Microsystems and others.