Extended Warranties

Marketing & Creation In Service

Extended Warranties

A Position Paper

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An Examination of Extended Warranties

&

Considerations in Executing the Strategy

Step by Step for Understanding & Implementing

A Detailed Chart of Accounts for the Company

What is an Extended Warranty?

An extended warranty is a “product” that offers consumers extended protection against equipment failure. There are variations in agreements. The most common example is:

Parts & labor coverage 10 years:

1. The contractor sells the extended warranty product as part of a job, or even on a service call to the homeowner.
2. Contractors may build the costs into the sale price; price it individually for service, or simply use as a closing tool, essentially reducing their margins if it is not built into the sale price.
3. The contractor may underwrite their own/or buy a third party product from a manufacturer or other independent provider.
4. The extended warranty has a term (5 years/10 years), and may vary some by covering parts, parts and labor, but it is in essence a form of consumer risk reduction, or insurance.
5. The contractor covers any “Covered” items in the agreement for the consumer should there be failure that is “Part” of the agreement (there are exceptions in the agreement).
6. If the agreement is purchased through a third party provider, and not underwritten by the contractor, the contractor must complete paperwork, assign a labor rate to the third party, and receive authorization for the agreement acceptance.

All that being said, **Extended Warranties are a marketing strategy** based on the principles of insurance!

Increase your base, or as we call it broaden your customer base, and this has the effect of minimizing your exposure. It’s a simple game of arithmetic.

Though the game itself is “Simple” the process of organizing the game has become more complicated since a few third party providers offered prices on extended warranties that were attractive, so attractive in fact that they were sold aggressively, and as we know from the lesson of EWC, they went belly up leaving thousands of consumers stranded with useless warranties, and the contractor on the hook for supporting them.

Other third party providers emerged, Equiguard, York, Trane, Lennox and others to fill in the void to a Niche market that consumer’s desire. Therein lies the key.

Consumers want less risk, peace of mind and are willing to pay. It has to be organized properly, and made a profit center so a company can focus on its true costs and price properly. As we know from history, overly aggressive pricing by insurers lead to some dire consequences.



**Offering an Extended Warranty** is a marketing concept.

The principle is simply the better the warranty, the more a consumer will associate product quality and reduced risk for their purchase.

In the HVAC industry, extended warranties emerged in the 1980’s. The correlation of why extended warranties emerged is tied to the volume of the add-on replacement market surpassing the volume of the new house market.

Once the Add-On market became a large market, the sub-market, or niche market was borne to support consumers who viewed the replacement of equipment in their home as a commodity purchase.

The extended warranty became a means to differentiate not just the product, but also the contractor. The market took hold, consumers and contractors alike responded in a positive manner, and the model of the insurance industry was the preferred choice for third party providers to contractors.

Meaning a low cost, mass volume strategy to sell as many extended warranties as possible to spread risk, based on a very aggressive price point. EWC led the way.

Other industries that have been using a similar model have been:

**Consumer Insurance**

**Autos Service**

**SEARS – Consumer Tools**

**Consumer Electronics**

Why 3rd Party Providers and Not the End Retailer?

The reasons are primarily two-fold.

* The first basic reason is they have the ability to spread their risk over a broader range of customers.
* The second is the historic failure of key providers in the 1980’s that left contractors holding the bag for the warranties, without having made the profit initially. This created a shockwave in the industry and many have not forgotten the pain this caused.

The list looks like this:

* 3rd Party Profit Motive – Money can be made here.
* EWC and the failure – Shaky confidence in providers scared many contractors.
* Manufacturers realizing profit opportunity demonstrating solvency.
* Consumer demand.
* Lack of contractor knowledge on how to execute.
* Contractors fearing the risk of doing the underwriting themselves.

What Kinds of Products Are There When It Comes to Extended Warranties?

There are numerous types of extended warranties that can be offered by a contractor.

Here is a simple list:

* Extended Warranty – Labor Only (any number of years).
* Extended Warranty – 5 year parts & labor.
* Extended Warranty – 10 year Parts and Labor.
* Packaged or bundled as an offer on all new sales.
* Offer on an existing piece of equipment for a price.
* Extended Warranty – 10 year parts & labor & 10 year service agreement.

Who offers Extended Warranties and why?

Three basic areas the products are marketed:

1. 3rd Party providers – (EquiGuard).
2. Major Manufacturers in the Industry – York, Trane, Lennox etc.
3. Contractors - The Retailer Underwriting Extended Warranties Themselves.

Those contractors who have created a strategy to market these will do it themselves, so long as they have the proper accounting practices.

The manufacturers have determined based on the amount of units they sell, their risk is low, and this is a worthy strategy to support the sale of their products. They have also determined they can be profitable in this segment as well. The better the quality of installation, and product, the less risk of failure on an agreement.

In addition, the money is funded up front, so the provider (including you as a contractor) is captured, can be invested, accrued, and earn interest. The Future value of money concept is in play. Of course the larger the amount of agreements, the more this is the case.

What is the market place for an extended warranty?

The market is based on local conditions. Much depends on the demographic make-up within your local community.

**Age, Income, Home Ownership, Educational Background**

A target market is a group of customers who have common attributes and are likely to respond to some form of marketing unique to that group.

Generally, extended warranties are viewed favorably by most consumers, as long as they are part of a package price and not sold independently.

When they are marketed independently, success rates decline as consumers see the price of the warranty and associate this with insurance. They may or may not want this.

By packaging an extended warranty as part of a “Total Comfort System” the customer will determine the value of the overall benefit-price relationship, which gives no visibility into the price of the extended warranty.

This by no means suggests you cannot market these products independently. It simply suggests the concept is easier to sell if the cost is part of a “Total Comfort System” package. A consumer who values peace of mind will fall into the target market for extended warranties. There are many methods to marketing extended warranties.

Why Do Retail (AOR) Contractors Benefit or Suffer from Their Use?

Some contractors do offer these types of extended warranty products. Others do not for fear of catastrophic failure impacting profit.

Really, there is no right or wrong on the issue. It is a question of:

1. Business competency first – Can you execute properly?
2. Financial structure and reserves.
3. Selling – Matching coils with 13 SEER R410A units to avoid compressor failures.
4. Pricing and Selling – Getting the costs included in new sales.
5. Technician training – Identifying key issues and products you may want to avoid writing such an agreement.
6. Strategy – Do you feel you need to offer them, or can offer them and make a reasonable profit given your risk factors?

Countless contractors over the years say how terrible these products are for contractors by damaging the service business. Conversely, many contractors in the residential markets that have successfully offered these products, and NOT negatively impacted their service business by organizing scheduled maintenance into the product.

**Who is right?**

**Answer: Both are.**

As with many strategies, there can be success in many ways. In our own models, we simply tie the agreement to owning a full service agreement. No USA (Ultimate Savings Agreement), no continuation of the warranty. The other important note is we heavily market for “New” demand service customers, to continue to feed our service pipeline. The combination of both makes for growth and profitability in both business segments (Service, and Extended Warranty).

It is also VERY TRUE, that some contractors have been hurt in service by this strategy, whether they do their own extended warranty product, or third party. In this case the service business suffers due to the lack of incoming service.

**Benefits:**

* Locks the customer into your company as the sole service provider
* Packages preventative maintenance agreement each year
* Enhances the potential profit by creating additional revenue dollars if priced properly
* Additional site visits for maintenance, allow for additional accessory sales
* Proper execution of customer service and maintenance creates additional referrals
* As its own separate department extended warranties can be a 50% operating profit contribution to the contractor’s profit & loss for the year.

**Negatives:**

* By not offering them to a consumer who may want to pay you for one.
* Improper pricing technique as a part of the sale of the extended warranty to the homeowner costs the contractor margin and profit.
* Improper cost accounting processes can create a lower than required service labor rate submitted to 3rd party provider, this reduces gross margins and gross profit dollars for the contractor and ultimately costs profit.
* Improper cost accounting dumps revenues into AOR from the sale of extended warranty that should be accounted for in a separate department.
* Lack of accounting reserve on the balance sheet means the contractor is booking revenues for future years in this year, causing a higher than normal sale, and profit, paying taxes on what could be liabilities not profits.

**How do these extended warranty products affect the marketplace?**

They affect the marketplace in several ways:

1. They force competitors to respond to the product, whether it is bundled or simply offered in service to a customer, because they remove the customer from the playing field.
2. As we move to a new efficiency standard, the product differentiation manufacturers covet will begin to take on new meaning as initially product lines become shorter for retailers to offer.
3. Those that underwrite well can make a reasonable profit on the product offering, and therefore have a competitive advantage in the market by offering at a lower cost, and reaping the profit as well.

**How do you cost an extended warranty for your business?**

The key to the cost detail is to understand what makes up the cost of an agreement.

**Costs:**

1. Labor to run a demand service failure call.
* How many failures will occur?
* What is your labor cost?
1. Cost of parts – If necessary – A 10 Year manufacturer warranty.
* Based on failures – How much is obligated.
1. Estimate of future failures and repairs.

**View the template below on the Site under Extended Warranty**

|  |  |  |
| --- | --- | --- |
| **Extended Warranty Pricing Tool** |   |   |
| **Full Parts/Labor Coverage Price** |   |   |
|  | **Data Entry** | **Output** |
| Step 1 - What is your unburdened cost of Labor |  $ 20.00  |   |
| Step 2 - What is your Burden Rate for Labor Benefits | 24% | 24.8 |
| Step 3 - Equipment to be serviced - Time Required? |   |   |
|  Failure Expected - Average Labor Minutes to Fix | 60 |   |
|   | 0 |   |
|   | 0 |   |
|   |   |   |
|   |   |   |
| Total Minutes to Complete Any Obligations |   | 60 |
| Travel time and diagnostic in actual minutes | 60 |   |
| # of Calls in Failure Plan | 1 | 60 |
|   |   |   |
| Step 4 - Conversion to Hours |   | 2 |
| Step 5 - Your Labor Costs to complete work |   |  $ 49.60  |
| Step 6 - Materials Required - Costs includes taxes |   |   |
|   |  $ -  |   |
|   |  $ -  |   |
|   |  $ -  |   |
|   |  $ -  |   |
|   |  $ -  |   |
|   |  $ -  |   |
| Total Materials Costs |   |  $ -  |
| Step 7 - Total Labor & Materials Costs |   |  $ 49.60  |
| Step 8 - Desired Gross Profit | 50% |  $ 99.20  |
| Step 9 - Tax - Labor Taxation/State - Final Price | 0% |  **$ 99.20**  |
| Step 10 - What if Market Price - Enter Price - Get Margin |  $ 269.00  | 81.56% |

A full 10-year manufacturer warranty already covers parts failures in this example.

In this case, we offer a 10 year guarantee that also encompasses a 10 year service agreement process. You can attack this in many ways. Adding filter change-outs. Batteries for CO detectors and other forms of basic maintenance that make sense to homeowners who have the wealth, and want the convenience and “Peace of Mind” that comes with such an offer. The costing template for this is below.

|  |  |  |
| --- | --- | --- |
| **Extended Warranty Pricing Tool** |   |   |
| **Full Parts/Labor Coverage Service Agreement Price** |   |
|  | **Data Entry** | **Output** |
| Step 1 - What is your unburdened cost of Labor |  $ 20.00  |   |
| Step 2 - What is your Burden Rate (24%) | 24% | 24.8 |
| Step 3 - Equipment to be serviced - Time Required? |   |   |
|  Failure Expected - Average Labor Minutes to Fix | 60 |   |
|   | 0 |   |
| Total minutes to Complete Obligation |   | **60** |
| Travel time and diagnostic in actual minutes to complete failure | 60 |   |
| # of Calls in Failure Plan | 1 | **60** |
| Step 4 - Minutes for PTU | 45 |   |
|  # of visits in a PTU Strategy | 20 |   |
|   |   |   |
| Total Number of Minutes in Support of PTU's |   | **900** |
|   |   |   |
| Travel time in actual minutes | 15 |   |
| # of Calls in PTU Strategy | 20 | **300** |
|   |   |   |
| Step 5 - Conversion to Hours |   | **22.00** |
| Step 6 - Your Labor Costs to complete work |   |  $ 545.60  |
| Step 7 - Materials Required - Costs includes taxes |   |   |
|  Filters (20) |  $ 40.00  |   |
|  Miscellaneous |  $ 20.00  |   |
|   |  $ -  |   |
|   |  $ -  |   |
|   |  $ -  |   |
|   |  $ -  |   |
| Total Materials Costs |   |  $ 60.00  |
| Step 8 - Total Labor & Materials Costs |   |  $ 605.60  |
| Step 9 - Desired Gross Profit | 40% |  $ 1,009.33  |
| Step 10 - Tax - Labor Taxation/State - Final Price | 0% |  **$1,009.33**  |
| Step 11 - What if Market Price - Enter Price - Get Margin/Profit |  **$ 1,000**  | **39.44%** |

A full 10-year manufacturer warranty already covers parts failures in this example.

Also, remember as you price these forms of coverage, that (in most cases) there really is very limited overhead applied to this department.

Unless you are determined to market extended warranties using direct mail or direct marketing, and want to apply the overhead to this segment, the overall gross margin is essentially the profit margin.

How do you “Account” for Extended Warranties/Service Agreements?

The process of accounting is dependent upon the product you choose to market. A reserve will need to be established to track these monies and your potential liability so you can manage your accruing cash, and your tax position.

For example if you choose “No Worries”:

1. You will need to have a balance reserve account called service agreement reserve.

In this account you will allocate the money for your total 10 year service agreement liability.

$555 for service agreement costs (605 – 2 hours in step 3 $50) =$555.

**Whatever you determine your service agreement costs to be:**

|  |  |  |
| --- | --- | --- |
| **Accrued Service Agreement Reserve** |  | **Cash Account** |
| **Credit** | **Debit** |  | **Credit** | **Debit** |
| $555 Gets Credited |  |  | $555 |

As you use the account, meaning you incur a service agreement expense for paying payroll to labor to run this call, you must deduct the amount of the call expense from the reserve and book this as revenue and it looks like this:

|  |  |  |
| --- | --- | --- |
| **Accrued Service Agreement Reserve** |  | **Cash Account** |
| **Credit** | **Debit** |  | **Credit** | **Debit** |
|  | $515 Gets Debited | $515 |  |

|  |  |  |
| --- | --- | --- |
| **Maintenance Sales** |  | **Maintenance Labor** |
| **Credit** | **Debit** |  | **Credit** | **Debit** |
| $40 Gets Credited |  |  | $40 |

1. At the point that we begin having to declare extended warranty obligations, either as a matter of having had to run a failure call, or to begin declaring revenue and potential profit, at some point we must begin reducing the account reserve and declaring this asset. Of course we hope to declare it as revenue with NO “Associated Costs” (Failures) attached to this revenue, which is one reason we package the service agreement reserve with the 10 year guarantee. This reduces the risk if we do our job properly though it costs more initially.

Since our overall obligation is for 10 years, one can make a strong argument that the liability does NOT go away for exactly that, 10 years! This is a process you should seek advice from your CPA, and determine for your company what the proper declaration for liability is. Since the agreement liability exists for 10 years, an aggressive approach may be to maintain the unused balance in cash and accrue interest for the 10 years only drawing down the extended warranty account when you incur a realized expense (a service agreement cost) or failure.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Accrued Ext. Warranty Reserve** |  | **Cash Account** |  | **Interest Accrual** |
| **Credit** | **Debit** |  | **Credit** | **Debit** |  | **Debit** | **Credit** |
|  | $485 Gets Debited |  | $485$50 Interest |  |  | $50 |  |

**Journal Trail for the Bookkeeping Function**

1. The $485 and the $ 515 get debited to the respective reserve accounts
2. In example #1 the $40 cost of true labor, is credited to maintenance sales revenue ledger to show a sale occurred as we ran the agreement.
3. A matching journal entry is recorded as a debit to maintenance labor to offset the revenue we just booked in our sales journal in step 2. This allows for offsetting entries, and we are booking no profit here since we are maintaining profit for the 10 year period as a “Potential” liability.
4. The other matching journal entry is to cash and is a credit to show more cash deposited – the $515 and the $485 to equal $1,000.
5. Any subsequent interest earned is shown as a credit, after operating profit – Our example is $ 50. We show interest accrual.
6. The last entry is the Cash Credit for interest earned since we now have $50 more in cash.

Until a labor failure happens, this money is established as a reserve to offset the future liability risk, which could happen, and most likely will happen.

In this example the adder to the price was $ 1,000, so both reserves and the cash accrual equal the price of $1,000 (service agreement reserve + extended warranty reserve). At the point you realize a failure, book the revenue and costs to the department ledger as they occur reducing the cash and the reserve amount equal to the liability shielding any profit until your risk is actually over.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Accrued Ext. Warranty Reserve** |  | **Cash Account** |  | **Interest Accrual** |
| **Credit** | **Debit** |  | **Credit** | **Debit** |  | **Debit** | **Credit** |
| **$40 Call** | $485 Gets Debited |  | $485$50 Interest | **$40 Pay** |  |  | $50 |

|  |  |  |
| --- | --- | --- |
| **Service Sales** |  | **Service Labor Payroll** |
| **Credit** | **Debit** |  | **Credit** | **Debit** |
| **$40**  |  |  | $40 |

*There is also a transaction involving accrued payroll liability as well in this process. So as not to confuse the issue too much. Payroll accrual must be credited, and when payroll is then paid when the call is actually run, its accrued liability amount is reduced exactly the same manner.*

What kind of risks are there for extended warranties?

Several areas come to mind once again depending upon the product you are choosing.

1. There may be a serious catastrophic failure on a part. Even though the part is covered, the labor is your obligation. And you as a company will be fully responsible for this.

Under the pricing scenario the breakeven on this process would be your margin divided by the number of calls, but you must recognize there would begin to be an overhead burden attached to this since your vehicles would now be involved in a serious problem fixing all the failed parts. It can happen and it has happened, in the 1980’s on Honeywell fan & limit controls.

Now, a labor allowance may be a part of this failure process, but these are never as profitable as they should be.

1. **If you market these products** to installations through service, to other people’s installations and spread your risk but also increase your exposure to potential quality issues from other installation practices, you may find your costing needs to be adjusted. Maintain a performance KPI for this segment and watch carefully for any trends. It is not just money in the bank.
2. Poor pricing practices can bite you as they did EWC. You need to be conservative, even if you sell fewer products, it is wiser in the long run to price appropriately to the risk.

Are there laws regarding extended warranties?

* Indeed there are!
* Several states have laws that govern these products.
* The states of Florida and Texas are two examples. You need to check with your legal counsel regarding the laws that pertain in your state and how they affect your marketing, and your reserve process.
* In Florida, a license must be required to sell these products and they have strict interpretations regarding the amount of the reserves.
* In addition, the Magnuson-Moss act is a Federal law governing warranties and how they are interpreted should there be an issue with “Limited” warranties, as well as other areas of warranty law.
* Once again, seek your legal counsel advice on these issues.
* There is disinformation regarding the law.
* Seek your own advice and research the answers with someone who **DOES NOT HAVE AN AGENDA.**

How do you market or position the extended warranties

There are numerous ways to position extended warranties:

1. Include them into your key sales/installation offerings – positioning strategy for sales – perhaps not on the low end but middle or higher.
2. Use them in sales as a closing tool on the sale.
3. Create a service selling product to sell them through your service department
4. Direct market them to a specific audience.

For the time being, we have chosen a simple strategy to offer these on the least risky market, our own installations with a Service Agreement so we control quality and we control the maintenance. We believe this is sound and reduces our risk associated with a failure generated by neglect of poor installation practices, and this can be particularly important during the imminent R410A future.

How do I get started with extended warranties?

* The very **first** decision you must come to conclusion on is “Who” is the underwriter?
	+ Is it your company?
	+ Is it a third party provider?
* The **second consideration** is what level of risk you are willing to accept in your business?
* The less extended warranties you sell, the more concentrated your risk will be.
* The business model you choose to creates a risk profile. We chose to be conservative at first but still underwrite them ourselves.
* As we grow in the experience, we may become more aggressive and expansive in our approach.
* As we do, profit is made from the low risk sale to cover the higher risk on those that are more likely to fail and cause a higher risk.
* A lack of spread, or numbers, means a higher concentration of risk.

If I want to underwrite (offer) them myself and assume the risk but reap the profit opportunity, what do I do?

Step-by-step to implementing extended warranties in your company.

1. Determine if your state allows you the contractor to act as a third party provider of extended warranties. Some states have restrictions you need to be aware of and should check with your legal counsel to establish your state’s requirement.

If allowed, proceed with underwriting your own agreements if you desire. If not, use a third party as a marketing weapon in your sales arsenal.

1. Create a general ledger account for your extended warranty agreements. This will allow for your accounting to begin accounting properly.

This needs to be a completely separate department from any other department.

The Extended Warranty Department will accept revenues from those extended warranties you sell in your company.

1. Create a balance sheet account in your general ledger that will allow for extended warranty reserves to be accrued. As you sell extended warranties, the amount of the reserve will be pulled away from the sale price and dumped into the reserve account on the balance sheet. You will show cash, and a reserve to balance the cash. The cash /reserve are there to remind you the company HAS a liability it could incur!
2. You must determine “What” product you are offering. Are we offering only to brand new customers an extended warranty, or are we offering the extended warranty to “ALL” potential customers. This extends our universe, but also increases chances of poorly maintained equipment. There is no right or wrong, only a strategy of choice by you the underwriter.
3. Once the strategy is chosen, you must cost the product you have chosen to market. We use a tool on the web site, under extended warranty pricing/costing. The tool allows you to estimate the actual costs based on scenarios, to play what if games regarding the labor, failure rates, and even future value of the money.
4. You MUST know your costs.
5. And ultimately determine your sale price you will either offer to the market or add-to-sales in your add-on department.
6. Once the product strategy is chosen, the contractor must create the paperwork to both sell and limit the warranty exposure based on an agreement. The sales and warranty paperwork is generally one in the same. However, there are some marketing benefits that can be claimed by treating the sales process and the legal process as one.
7. The legal portion of your extended warranty has restrictions. The Moss-Magnuson act, a Federal Law is the guiding principal in the world of warranty and law. States also have laws (Florida is an example) where contractors may need to be licensed. As a provider of extended warranties, you must know your state law. Once again, once the agreement is written, you should pass this by your legal counsel for validation against Federal and State laws. Once this is completed you have an agreement to present in sales process.
8. The sales process is ready at this point. Depending on which “Distribution & Selling” strategy you have chosen, you will need to train your team.
9. Service technicians will need to be well training, focusing heavily on the exceptions that are noted on the agreement.
10. Sales personnel need to be trained. The costs and markup associated with the agreement need to be added to the sale price of the existing equipment.
11. You may also find there are product positions you may not want to attach the marketing of the warranty. Such as the “Basic” or “Standard”. You may on the other hand, attach the extended warranty to all jobs. Once again, strategy choice dictates this, as well as your sales process.
12. Upon sale of an agreement, the warranty paperwork needs to be completed.
13. The sale price needs to be reduced by the reserve amount, which includes your exposure as risk, plus your profit.
14. Each year, as risk passes you by, a journal entry needs to be entered to offset the reduced risk. The journal entry will reduce cash, reduce the accrued liability reserve account, and book the exact same amount to sales. We have set up sales extended warranty, so this is where we book the sale. All costs of warranty repairs hit this department as well.
15. Depending on your actual incurred costs, you may be adding profit or offsetting your costs for running extended warranties as you book each year. In some cases, such as the 10 Year extended warranty, you may be able to justify maintaining large reserves for a liability that exists out to year 10 before you book any deferred revenue.
16. It pays to have a marketing plan to market these products to your target market area.

Why is this Critical to Your Success?

1. Understanding extended warranties is a must for competing in the retail market whether you offer these products or not. It is essential you as a business owner know how to sell them, or sell against them. They are simply a formidable marketing tool and are not going away any time soon.
2. Offering extended warranties to customers who “Value” them, despite your own feelings (good or bad) is simply good business practice.
3. There are customers who do not want to have any future obligations and are willing to front the costs for extended warranties as a form of insurance so they do NOT have to WORRY! This is a profit opportunity for someone and certainly as sales and customer satisfaction opportunity as well.
4. Extended warranties are a marketing tool. They create sales leads, help close sales, especially during slower periods, and they are easy to use as a form of differentiating your company and your services from competitors.
5. It is a myth that extended warranties hurt or destroy a service business. This may have been true when proper maintenance was NOT written into the language of the agreement of major third party vendors to support the contractors maintenance program, yet in today’s environment, no one has an extended warranty without the language protecting the contractor’s maintenance protocol.
6. This means you get to sell preventative maintenance agreements as part of the process, enriching the company in a secondary manner if you use the strategy. Of course, you have to be involved in a maintenance process as well.
7. Properly executed, extended warranties can be a 50% profit business or more. Understanding the implications of accounting, sales practice, tax consequences, state laws, and how to integrate the extended warranty into your own business is crucial to the overall process becoming a profitable business segment.
8. **Extended warranties are not for every contractor, but they most certainly increase your profitability by adding immediate positive cash flow, and locking in customers for a long period of time**!

Questions to Answer – Learning Recap

* Do you understand the basic idea of an extended warranty?
* Do you know how extended warranties create profit opportunities in a retail operation?
* Did you understand the cost of an extended warranty and why it may be beneficial to market your own versus buy a policy from a third party?
* Do you understand why a third party provider may be your best choice instead of marketing your own product?
* Did you understand the positioning strategy for extended warranties in your cookbook pricing/positioning system to help you differentiate your products?
* Do you believe an extended warranty is in a customer’s best interest?
* Do you understand how to market and sell extended warranties?
* Do you understand your obligations to work with your legal and accounting team to protect your company?