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study sponsored by
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Who's Buying Vehicle Service Contracts?

Four Ways to Attract High Value Consumers

and Keep Them Coming Back.

The automobile buying experience has changed dramatically, and consumers are in the driver's seat. Armed with online research, social media tools and price comparisons, today's consumers are doing their homework long before they do any legwork. Shoppers postpone a visit to the dealer until the end of the buying cycle when they are much more committed to purchase. By the time they set foot in a dealership, buyers often already know what vehicle they want, what options they want and how much they want to pay. These last-minute visits often leave the dealer with only one chance to introduce the concept of a service contract and make the sale.

Vehicle service contracts (VSCs) add value to both the buying and ownership experience. When introduced early and offered the right way, dealers will find greater success in attaching VSCs to vehicle purchases. Assurant Solutions, a leading global provider of extended protection programs for automotive dealers, manufacturers and third-party administrators (TPAs), conducted a study of consumer buying habits related to vehicle service contracts. The study resulted in four recommendations that provide new insight into the way dealers, manufacturers and TPAs think about the vehicle service contract program.

1.

Meet your customers where they are.

92% of consumers surveyed were aware of VSCs.

55% were aware of VSCs but did not buy for most recent purchase.



37% bought VSC for most recent vehicle purchase.



8% were not aware of VSCs.



The Findings

Our survey revealed that 92 percent of respondents were aware of vehicle service contracts, but only 37 percent had bought one for their most recent vehicle purchase. Many consumers know about vehicle service contracts, but their awareness doesn't always compel them to buy. These findings highlight an opportunity to better educate consumers on the value of VSCs and ultimately increase sales.

Look for opportunities beyond the showroom

Industry research indicates that today's car buyers postpone visits to the dealer showroom until the last two weeks of the buying cycle, leaving dealers with fewer opportunities to interact directly with the customer. Therefore, dealers must identify ways to reach potential buyers outside of the showroom. Consumers are looking beyond traditional advertising and dealership visits to research vehicles. When asked where they searched for information prior to their most recent vehicle purchase, 65 percent of respondents said they still visit dealerships but a growing number regularly use dealer websites (56%), industry sites such as Kelley Blue Book's kbb.com (48%) and consumer review magazines or websites such as Consumer Reports or J.D. Power and Associates (35%) to research and compare vehicles.

Consumers are also increasing their reliance on comments and reviews from third parties to shape their decisions, visiting automotive websites such as autotrader.com, cars.com, etc. (28%), reading online reviews or blogs (37%) and talking to friends and/or family members (25%).

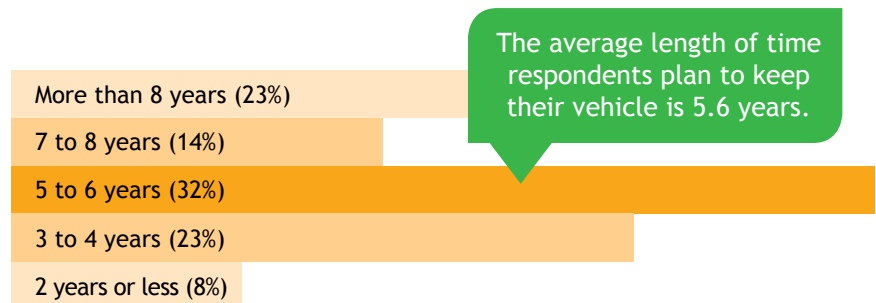
As a result, smart dealers and manufacturers are already using social media, blogs and promotions to educate and excite prospective buyers long before the first test drive. Dealers should incorporate the same tools to engage consumers early and often about VSCs. For example, blogs can be used to share tips and answer questions about vehicle maintenance as well as making the most of VSC coverage. Creating a social media site or tapping into existing social networks will enhance dealers' understanding of their customers and enhance their ability to respond to customer questions and needs - both during the research stage of the purchasing process and throughout the ownership life cycle. Failing to engage with consumers in this manner is like ignoring a potential customer when they enter your showroom. Today, all touch points with consumers, whether online or in person, must be maximized.

2.

Accentuate the positive. Eliminate the negative.

During an economic downturn, consumers not only hold on to their money - they also hold on to their vehicles. On average, respondents said they planned to keep their new vehicle for slightly more than five years, consistent with an upward trend among American consumers. According to automotive marketing research firm R.L. Polk, the average length of ownership last year reached a high of nearly 6 years for new vehicles and slightly over 4 years for used ones.

Expected length of time to own vehicle most recently purchased



Because consumers are keeping their vehicles longer, dealers have an opportunity to accentuate the benefits of a VSC and help consumers eliminate the real risk they run by failing to purchase this protection. Consumers may not realize the limitations of the OEM warranty and may be unaware of how much it costs to repair various automotive systems – fixes that may be needed after the manufacturer’s warranty runs out.

From cooling systems and brakes to major mechanical problems, unanticipated repairs can be expensive - especially with parts and labor costs on the rise. For example, the average cost to replace a transmission runs from \$900-\$3,000 according to carsdirect.com, and today’s high-end vehicles include parts such as sensors and navigation systems that can cost hundreds of dollars to repair. A VSC can cover some of these rising costs and reduce some of the expense of long-term ownership, which, coincidentally, ranked highest among reasons people bought VSCs.

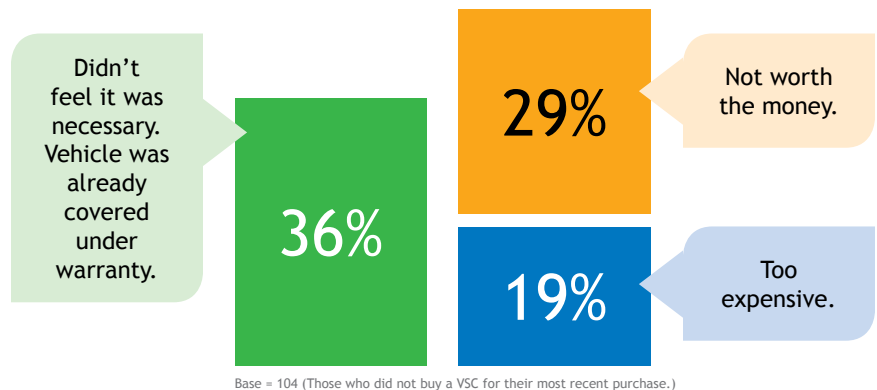
Educating consumers about the limitations of OEM warranty coverage and encouraging them to consider the potential negative consequences of failing to purchase a VSC is part of the service dealers can provide, helping consumers make the right decision for the right reasons.

3.

Offer the benefits that make sense for your customer.

Consumers who do not buy VSCs believe they are already covered. Among respondents who did not purchase a VSC, 36 percent said they did not feel it was necessary or that their vehicle was already covered, and 29 percent indicated that a VSC was not worth the money. These findings highlight a value gap for consumers, who may not realize the many benefits VSCs offer beyond the manufacturer's warranty and coverage for basic mechanical failure.

Reasons for Not Purchasing a VSC



Dealers, manufacturers and TPAs can overcome this and other common objections by letting consumers know of the many ways VSCs add value. However, they must be proactive in their approach. Dealers should know and be able to articulate the valuable aspects of the VSC versus the manufacturer's coverage and share them with potential buyers. VSCs often include a replacement vehicle while their car is being fixed, a savings of between \$30 and \$90 per day. This benefit offers convenience, peace of mind and cost savings that consumers may not be thinking of at the time of purchase.

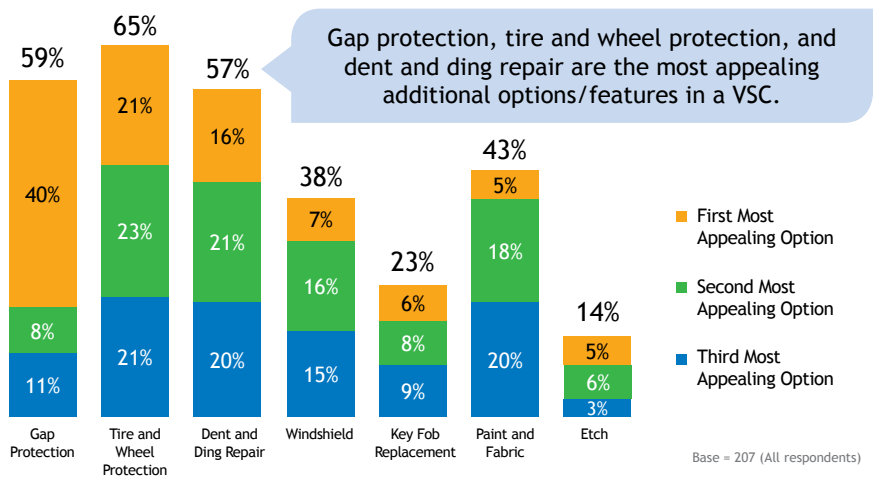
Understanding the consumer and accentuating what is important to them is critical to selling a VSC. Ask questions to tie the VSC benefits back to customer needs. For example, VSCs often include roadside assistance and trip interruption benefits, which cover travel expenses if a car breaks down when the consumer is 100 miles from home. Does the buyer go on family road trips every year? These and other VSC features may be more important to your customer than you realize and may make the coverage worthwhile for them.

3.

Offer the benefits that make sense for your customer. (cont.)

Our research indicated that consumers believe their car will last five years without mechanical failure. For this reason, non-mechanical, ancillary products may resonate well with consumers. When asked to rank the most appealing ancillary products, respondents listed them as follows: gap, tire and wheel protection, dent and ding repair, paint and fabric, windshield damage protection, key fob replacement and etch.

Most appealing additional options/features in a VSC



Understanding your customers' lifestyle will help you better explain the value of ancillary coverage. Paint and fabric may make sense for a family with children while tire protection and dent and ding repair may make sense for someone who takes frequent road trips. Do they lose their keys a lot? Show them the cost of a new key fob. Once consumers are aware of the cost of replacing certain items, they may realize the true value and peace of mind a VSC can provide.

4.

Drive the post-sale experience.

Quality post-sale service is growing in importance to consumers and also allows manufacturers and dealers to reinforce the customer bond. Many of these post-sale experiences, such as sharing car care tips, have become standard practice. But there's still opportunity for innovation. For example, some vehicle brands and dealerships have created mobile applications that enable owners to schedule a service call, unlock their cars remotely, or call roadside assistance.

When considering additional touch points and adding value after the sale, dealers, manufacturers and TPAs should consider a "missed opportunity program" for VSCs. As visits to dealerships are pushed to the end of the purchasing process, many consumers simply don't have enough time to truly consider a VSC. Consumers often feel rushed and overwhelmed when buying a car.

Offering a VSC after the sale provides additional time to consider such an important purchase without additional pressure. When offered in a consultative way, today's empowered consumer may better appreciate the aftermarket VSC offer and will be better prepared to truly grasp the many benefits of a VSC.

Whether consumers buy a VSC with their vehicle or after they leave the dealership, VSCs are an important part of the post-sale opportunity to maintain customer loyalty. In fact, services are becoming more of a factor in the automotive world, and industry data suggests that VSCs and other post-sale services factor into consumers' vehicle purchase decisions. Are you offering the benefits that are right for your customers? Are you communicating these throughout the ownership life cycle? The value that VSCs offer must be better integrated into the vehicle ownership life cycle. With a variety of post-sale touch points available, VSC benefits are a strong part of the vehicle ownership experience that will lead consumers back to your brand when they make their next purchase.

Today's consumer is looking for a new kind of dealer.

Vehicle buying behavior has evolved to include more online research and social media tools and less interaction with dealers. Consumers are navigating the purchase decision in a new way, and it is incumbent upon dealers to meet them early along this new path if they are to add value.

Dealers must capitalize on the growing number of channels and devices used by consumers during the buying process. Using new electronic tools is not only an effective strategy to get customers in the door but can also build brand loyalty. These new tools can play a vital role in both the buying process and in the ownership cycle.

VSCs play an important role in building brand loyalty and helping dealers stay engaged with the consumer. They enhance the consumer experience with value-added benefits such as convenient repair locations at local service centers and roadside assistance as well as cost-savings and peace of mind. These four tips can help you turn satisfied customers into repeat customers. And repeat customers are the best customers!





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Vehicle Service Contracts: Purchasing Habits and Trends

Survey Process and Procedures

Data for this study was captured through a series of online surveys 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 a new or pre-owned vehicle in the last year.

In order to obtain balanced results, Assurant Solutions sought to compare equal measures of those who had purchased a vehicle service contract and those who did not. Fifty percent of the surveys in the study were completed by those who purchased a vehicle service contract for the most recent vehicle they purchased. The other half of the study includes surveys completed by those who did not purchase vehicle service contracts at all.

The study is based on 207 completed interviews - 103 that purchased vehicle service contracts and 104 that did not. The study was completed in January 2012.

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