

How to Measure a Well-Run Automotive Finance ...

Extended Service Contracts are a WIN for e... September 30, 2008 2:11:00 P...

I originally wrote this for a new salesperson's orientation to the F&I department. Please tell me if it's too corny - it was meant to increase understanding of some of the purposes of Extended service contracts.

1. Peace of mind for the customer is an obvious benefit of owning an extended service contract. The customer can feel great knowing that if their \$3500 navigation screen or rear DVD viewing system burns out, they will only have to pay a small deductible for it's complete repair or replacement.

The electronic components in cars and trucks today are what will be costly to the customer once the factory warranty expires. As warranty periods are statistically decided on by the manufacturer, one can logically assume that major repairs will probably not occur within that factory warranty period. Murphy's law states that the \$1250 power seat track and motor will probably need to be replaced the first month that the car is out of warranty.

2. Dealership service departments benefit greatly from the sale of ESC's. In most cases, the administrator of the ESC pays the dealership's service department the same fees as if it were the customer writing them the check. How hard do you think the writer has to work to convince Mrs. Jones that she should have the \$1200 "noise in the steering wheel" fixed at the dealership when she thinks that she could take it to a service station and get it done cheaper? Would it be a disservice to let her have her car "experimented on" by a jack-of-all-trades? Of course. A service station cannot properly diagnose all of the potential problems with the technology in today's automobiles.

If the customer has an extended service contract, there is no reason for them to have needed work to their vehicle done anywhere other than at your dealership. In addition, having the ESC gives the writer a major advantage for additional product sales. "Mrs. Jones, the steering assembly is completely covered by the terms of your extended protection plan and you saved \$1200. Would you like to go ahead and get the transmission service for our \$300 special while the car is already here?" The writer psychologically saved Mrs. Jones \$1200, as that repair is covered by the ESC, while making the equivalent of a \$1500 customer pay sale - All because an ESC was sold.

3. Front-end profit. Obviously there is a financial benefit to the dealership in the direct sale of an ESC. From the layers of profit added to the true cost of the ESC to the F&I manager's commission on the net markup, the service contract income is an important part of the bottom line in the profitability of dealerships in today's economic environment.

Sell some ESC's!!!

AFI

[Read more...](#)