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More Consumers Choosing Warranties to Fend Off Repair Costs

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By Kayla Carrick



Aug. 20 (Bloomberg) -- Tracy Busch bought a new Dell laptop for \$599 this month and a \$99 extended-service contract. She is wary of repair costs after being unemployed for 14 months.

"This is a major purchase for me," said Busch, a 46-year-old Long Island City, New York, resident, who's starting a new job in banking. "I have to protect it just in case."

A study published on the Internet in June by the [Journal of Consumer Research](#) found that people with lower incomes are more likely to purchase a warranty because they worry more about the costs of repair or replacement, according to Ajay Kalra,

a marketing professor at [Rice University](#) in Texas who worked on the study. Kalra said he looked at 1,676 purchases of electronic products which included 553 sales of extended-service contracts from one retailer.

"When you're rich, you can just go out and buy new products," Kalra said. "In this economy people are going to hold onto their purchases for a long time." U.S. personal incomes fell 1.3 percent in June, the biggest drop in four years, the Commerce Department said on Aug 4.

Consumers spent \$8.3 billion in 2007 on warranties for computers, other consumer electronics and major appliances, according to [Warranty Week](#), an industry Web site in Forest Hills, New York. That represents at least 100 million extended warranties according to the [Service Contract Industry Council](#), a trade group based in Tallahassee, Florida.

Soft Economy

Coverage for repairs has grown amid the worst recession since the Great Depression, warranty-service providers and retailers said. So-called attachment rates, or the percent of people who add a service contract to their purchase, have increased by 10 percent this year, said [Tony Nader](#), chief executive officer and president of [N.E.W. Customer Service Companies, Inc.](#) The Sterling, Virginia, company is a privately held administrator of service plans for retailers including [Wal-Mart Stores Inc.](#) and [J.C. Penney Co.](#)

In 2008, 42 percent of consumers bought a warranty for their laptop or desktop computer, an increase from 37 percent in 2007, according to [David Daoud](#), an analyst with [IDC](#), a research firm in Framingham, Massachusetts.

Busch said she bought the one-year extended contract from [Best Buy Co.](#) because a computer monitor she purchased several years ago broke three days after the manufacturer's one-year warranty expired. "I'm confident that I'll be fine with this plan," she said.

Consumer advocates such as [Consumers Union](#), publisher of Consumer Reports magazine, and the Consumer Federation of America advise against purchasing extended-service contracts.

'Bad Bet'

Mark Kotkin, director of survey research at Yonkers, New York-based Consumer Reports' national research center, said extended-service contracts are "a bad bet," because the chance of needing a repair during the coverage period is small and warranty prices are similar to the cost of the average repair.

Many repairs are covered by the standard warranty often offered with the product and many products rarely break within the extended-warranty window, Kotkin said, citing their data. Three-year-old laptop computers had a 36 percent repair rate, and three-year-old digital cameras had a 9 percent repair rate, according to Consumer Reports' 2009 Annual Questionnaire of consumers.

"The fact that people who are scrimping and saving to buy certain things are spending more than they should is a bit disconcerting to us," said **Jack Gillis**, director of public affairs for the Washington-based **Consumer Federation of America**, an advocacy organization.

Research Provider

"If you feel you must have an extended-service contract, be sure to check with the **Better Business Bureau** to find out how they are rated," Gillis said. "Avoid companies with significant complaints."

More consumers chose to buy less expensive, shorter-term warranties on computers in 2008. Twenty-five percent bought a two-year warranty, up from 20 percent in 2007, according to a survey of about 1,000 consumers conducted by IDC. The percent of consumers that bought a 3-year warranty on computers was unchanged at 17 percent from 2007 to 2008.

"People went for the cheaper option to at least get some protection for a few years," IDC's Daoud said. "That's an indicator of economic hardship."

Consumer Reports recommends shopping around when purchasing a warranty, and advises not to pay more than 20 percent of the product's purchase price. Consumers should ask if the extended warranty includes in-home repair or pickup for heavy items and if it contains a lemon clause, which replaces the product if it can't be repaired. Most extended-service contracts begin when the product is purchased and may overlap with the standard warranty for a time, Kotkin said.

Revenue Grows

Target Corp.'s revenue since 2006 from extended-service plans has outpaced the growth of the company's electronics business, said Jana O'Leary, a spokeswoman for the Minneapolis-based company, who declined to give specific numbers. Target's warranties **range** from \$19 for a 3-year plan on most electronics worth \$200 or less, to \$79 for a 3-year plan to cover electronics over \$1,000.

Best Buy, the world's largest electronics retailer, said revenue from all services, including extended-service plans, was 7 percent of total revenue of \$45 billion during fiscal year 2009, an increase from 6 percent in fiscal year 2008, according to filings by the Richfield, Minnesota-based company.

Bobby Bilicki said he made his first big purchase, a 56-inch JVC rear-projection television, when he was a senior in college and didn't have a lot of money. Bilicki, 25, who works in public relations and marketing, said he paid \$300 for a five-year warranty to protect his purchase and hasn't yet needed it.

"I decided to go for it," the Arlington, Virginia, resident said. "If anything broke, I would have been screwed. I wasn't confident that I'd have the money to fix it."

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