



## Service Contracts: A 'Win-Win' Situation

The service contract is definitely a 'win-win' situation. It is a win for the dealership and the customer. How? The dealer wins through:

**Income.** The service contract provides income to several departments within the dealership. The finance office, service department, parts department, and sales department all benefit financially from the sale of a service contract.

**Customer satisfaction.** In today's competitive market, you want a customer to buy one car from you in anticipation that they will buy from you again. Service contracts are an excellent way of enhancing customer loyalty. When a customer buys a vehicle, and it costs them money to keep the car on the road due to problems, they feel cheated. On the other hand, if repairs are paid by a service contract, then the negative perception is eliminated.

**Increased positive feedback.** Sales people perform best in a positive environment. Good service contract penetration can not only reduce any potential customer complaints, it can also dramatically increase the amount of positive customer feedback.

**Repeat business and customer control.** The fact that the customer bought a service contract makes it more likely that they will bring the vehicle to your dealership for maintenance. Everything you can do to bring the customer back to your dealership gives you another opportunity to provide them with all of their automotive needs.

Dealers are not the only winners in the service contract business. The customer makes up the second half of the win-win equation. How does the customer win? The customer wins through:

**Limited out of pocket expense for repairs.** A service contract is a small percentage of the total selling price of

the goods purchased. The price of a service contract is typically about 5-8% of the price of the vehicle. Deductibles range from \$0-200. The customer will have little to no cash to outlay toward mechanical breakdowns, assuming they have done their regular maintenance. For about \$25 per month, a customer can protect himself/herself from significant repair bills. The number of claims they have during the contract period doesn't matter.

**Fixed monthly payment.** When a customer takes advantage of a service contract he/she knows what to expect in the form of expense for their vehicle repairs for a specific period of time. Without the service contract, even though their monthly payment is lower, their outlay will vary depending on breakdowns.

**Ensured professional maintenance.** Dealership mechanics are trained to repair the most sophisticated vehicles ever made. A new car franchised dealer has a significant capital investment in equipment and tools. When a customer buys the extended service plan their costs are fixed. This ensures that a professional repairs the vehicle.

A win-win relationship builds the fundamental characteristic of selling: that the sales person has belief in the product they are providing and can transfer that enthusiasm to the customer.

How do you capitalize on this win-win arrangement and provide your dealership with this natural profit center? Structure a presentation that makes the customer realize that having the repairs paid for is a much better option than them taking money out of pocket. An effective service contract presentation is a four-step process:

1. Qualify the customer's needs;
2. Present the service contract in a way that qualifies the customer to buy;
3. Overcome the customer's likely objections;
4. Get the customer to make a decision.

You need to first find out from the customer what the best service contract is for their needs. When they are purchasing a new vehicle, find out their driving pattern. How many years do they plan on keeping the vehicle, and what is their annual mileage? This will help you present an affordable plan for the customer that doesn't have them paying for time or miles they won't need.

When it comes to a pre-owned vehicle, you can usually pick a plan that best qualifies for the vehicle. Used vehicle plans tend to be less flexible when it comes to time and mileage options, so try to tailor the service contract to the loan term.

Once you have selected the right plan for the customer, it's time to present the product to them. Begin by breaking their pre-conceptions with a question, "Mrs. Doyle how would you like to prevent having to pay future repair bills?" This question serves to set the sale in motion by getting the customer's attention. Follow with a features and benefits presentation that is designed to find out what would make the customer agree to the request. It is important to include questions throughout the presentation. Give the customer some information, ask a question, and then listen. The presentation should describe the program to the customer, so when its time to ask for the order, they see the need for the product. It should also uncover the customer's hot button, that is, the specific benefit that they, personally, don't want to pass.

Most professional finance managers are selling service contracts to over half the people that purchase automobiles from them, yet about 50% of customers that purchase a service contract initially object to the offer. For high penetration of this product, you must be good at overcoming objections and taking the customer smoothly through the close.

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