

This laptop got lost  
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## How small businesses can unravel the extended-warranty conundrum



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PCWorld

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The conventional wisdom has always held that extended warranties are a sucker's bet. It's often said that businesses far and wide—from automakers to computer companies—make more money on the sale of extended warranties than they do from the actual products they make. Consumer Reports has led this charge for years, finding that retailers that push extended warranties and service plans [keep 50 percent or more](http://www.consumerreports.org/cro/extended-warranties/buying-guide.htm) (<http://www.consumerreports.org/cro/extended-warranties/buying-guide.htm>) of what they charge for them.

The logic is that, even though equipment of all kinds eventually breaks down, the extended warranty doesn't make sense because many needed repairs are covered by a standard manufacturer's warranty, and that once the standard warranty expires, equipment breakdowns are relatively unlikely. Further, even when things do break after the warranty has expired, the cost of repairs is not much higher than buying the warranty to begin with.

It all makes sense, but now the debate over extended warranties is raging again. An authority no less than the [Harvard Business Review](#) [jumped into the mix](#)



[http://blogs.hbr.org/cs/2012/03/why\\_consumer\\_reports\\_is\\_wrong.html](http://blogs.hbr.org/cs/2012/03/why_consumer_reports_is_wrong.html)) last year with an interesting blog post in which writer Rafi Mohammed previously argued that Consumer Reports' analysis didn't include additional value that consumers and businesses receive from extended warranties.

Namely, this includes "peace of mind" benefits that can't be easily quantified financially, since an extended warranty takes the hassle out of those eventual repairs. As Mohammed notes, "Extended warranties mitigate the concern of being 'ripped off' on the repair, because service companies have an incentive to fix the problem efficiently. Bottom line: There's value in being able to sleep well at night."

There's truth to this. When I purchased a new car last year I sprung for the extended warranty, in part because it seemed like a real bargain, in part because the salesman noted that some of my options—including a pricey navigation system—were more prone to failure than the rest of the vehicle. Sure enough, a month ago, that nav system started acting up, and the company is replacing it with this year's model for free.

Mohammed has a similar story, involving a laptop that began acting up, his subsequent panic, and how he's now become a loyal Dell customer because of the speedy service he received when the machine was repaired. (That's also an important lesson for businesses that sell warranties: They aren't just financially lucrative; if you service them well you can make someone a customer for life even if their equipment breaks.)



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Does that extended warranty you just bought cover accidental damage, or only the manufacturer's defects?

When those failures happen, we're thankful for having the extended warranty on that specific device, and feel like it was money well spent. But we don't consider the other 10 extended warranties that we purchased but never used. These anecdotes are part of the reason why extended warranties work. Buyers have had an emotional experience involving something failing and either having to be replaced at great cost and hassle, or having been saved by the safety net of the extended warranty.

For businesses, the stakes are considerably higher. Extended warranties on major business purchases like laptops can be costly. Upgrading the standard one-year warranty on a Lenovo ThinkPad T530 to a four-year warranty will add \$269 to the \$849 price tag—and that doesn't include coverage for accidental damage (a massive \$429 for four years). For a company with a fleet of 100 laptops, that represents an investment of over \$40,000 in warranties alone.

But Stephen McDaniel, assistant executive director for the [Service Contract Industry Council \(http://go-scic.com/\)](http://go-scic.com/), a trade association for the service industry, says extended warranties have other tangible benefits that shoppers need to consider. "A lot of service contracts also come with free tech support for the life of the extended warranty," says McDaniel, even if the equipment isn't broken. And with computer gear, he says even a pricey warranty can be worth it. "With respect to laptops, a typical repair can cost \$350 for an LCD screen repair or \$450 for a new motherboard. These aren't insubstantial costs."

If you do consider an extended warranty, make sure you know what you're getting into. [ITWire says \(http://www.itwire.com/opinion-and-analysis/shaw-thing/60108-extended-warranties-not-worth-the-paper-they-are-written-on\)](http://www.itwire.com/opinion-and-analysis/shaw-thing/60108-extended-warranties-not-worth-the-paper-they-are-written-on) to be especially wary of loopholes

that don't cover certain components (one warranty excluded the backlights in LCD TVs), don't cover "fair wear and tear," don't cover shipping costs, or offer replacements but don't specify the equipment you're receiving will be new.

Minefields abound, but with tech products, don't forget to consider another big caveat: If your three-year old PC breaks down today: Would you really want to get it fixed, or would you want to buy a new one?

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The sellers of extended warranties rely on individuals like the author to post those "single viewpoint" experiences. There are people out there who LOVE the Yugo. That doesn't mean they're cars anyone ELSE would want to own.

The examples of taking one's personal experiences and projecting them onto others are all too common. It's like a psychic only announcing the extremely few "successes" and never mentioning the vastly more numerous failures. For every "success" story in a person's extended warranty experience, there are probably several horror stories about how they got ripped off.

I would further argue that such horror stories completely undo in the short term any "peace of mind" nonsense buying an extended warranty may bring in the long term.

Finally, since most people buy on credit, that extended warranty isn't a "one time payment", Interest adds to it and because that's an added cost, that extended warranty actually costs you considerably MORE in the long run than you thought.

A cost-conscious shopper won't bother padding the store's bottom line. If the store, or manufacturer, doesn't stand behind their products in the first place, there's no point buying ANYTHING from them, let alone a useless longer warranty for a product that already has a useless shorter one. Most stores will "make it right" to keep a customer regardless of warranties. And if a store weasels out of a warranty, no amount of money you spent up front is going to get that back.

If you want "peace of mind", I tend to think it comes from seeing a higher bottom line in one's own bank account than a bunch of extended warranty certificates which are probably not worth the paper they're printed on.

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