



THE VISION OF F&I

WITH RON MARTIN

SELLING SERVICE CONTRACTS

I challenge you to find a product that provides more benefit to the automobile dealership than a service contract, without picking the vehicle itself.

We keep giving the customer warranty coverage, like more manufactures warranty and certified programs. Yet all the while more extended service contracts are being bought.

Why is that?

There are several reasons, but what comes to mind are two.

First, automobiles are much more complex and costly to repair nowadays so a customer needs to bring the vehicle back to their new car dealership to get it repaired. Repairs are costly and an extended service contract keeps the costs down to a small deductible.

Second, we are conditioning the customer to expect warranty coverage on their vehicles, and if there isn't any, or the manufactures warranty will expire while they own the automobile, they are very receptive to purchasing one.

The service contract is definitely a win-win. It is a win for the dealership and the customer.

■ The dealer wins through:

Income

The service contract provides income to several departments at the dealership. The finance office, service, parts, and sales departments all benefit financial from the sale of a service contract.

Customer satisfaction

In today's competitive market, we can ill afford for a customer to buy one car from us only to never buy from us again. Service contracts are an excellent way of enhancing customer loyalty. Fact: automobiles malfunction. We of course don't know ahead of time which ones will. When a customer buys a vehicle

from us and it costs them money to keep the car on the road due to breakdowns, they feel we sold them a lemon. On the other hand, if the repairs are paid by the service contract, they become only inconveniences.

Limits complaints

Good sales people thrive best in a positive environment. We like to keep things upbeat to maintain a great attitude to be able to persuade people to make purchases. The last thing we want is to deal with customers complaining about the product that they bought from us. We can't eliminate complaints, but we can limit them with good service contract penetration.

Repeat business and customer control

I like a good sales success story. The one I hear a lot from some automobiles sales people goes like this. "Ron, you wouldn't believe the sale I just made! I went back to service to refresh my cup of coffee when I ran into one of my past customers. They were here because the alternator in their car quit working and our service department was putting in a new one. We took a walk out to the showroom and before they knew it they were driving home in a new car!"

This story occurs every day in many stores across the country. The fact that they bought a service contract makes it more likely the customer will bring the

vehicle to your dealership to get it repaired. Everything we can do to bring the customer back to our dealership gives us another opportunity to provide them with all of their automotive needs.

■ Here's how the customer wins:

Limited out of pocket expense for repairs

A service contract is a small percentage of the sale price of the goods purchased, compared to other types of service contracts.

The price of a service contract is typically about 5-8% of the price of the vehicle. Deductibles range from 0-200 dollars. 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 themselves from significant repair bills, and 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 or she knows what to expect in the form of expense for their vehicle for a specific period of time. Otherwise, even though their monthly payment is lower, their outlay will vary depending on breakdowns.

Ensures the best repair facility takes care of their car

It usually costs more to have a new car service department repair a vehicle when it has a mechanical failure doesn't it? Shouldn't it! The mechanics need to be 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 regardless of who works on the vehicle. This ensures the professional does it

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right the first time, and a cheaper option isn't elected.

A win-win relationship makes certain the presence of the fundamental characteristic of selling: that the sales person has belief in the product their providing and can transfer that enthusiasm to the customer.

How do we capitalize on this win-win arrangement and provide our dealership with this natural profit center? We structure a presentation that capitalizes on the customer's belief that having the repairs paid for is a much better option than them taking money out of their 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.

We need to learn from the customer what the best service contract is for their needs. When they are purchasing a new vehicle, that is done by finding 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 unnecessary time or miles.

When it comes to a pre-owned vehicle you can usually pick a plan that best qualifies for the vehicle, since used-vehicle plans tend to be less flexible when it comes to time and mile options. Of course, tailoring the service contract to the loan term is always a good option for both new and used vehicles.

Once we have selected the right plan for the customer it's time to present the product to them.

I begin by breaking their pre-occupation with a question, "Mr. or Mrs. Doyle how would you like to prevent having to pay most any future repair bill?" This question serves to set the sale in motion by getting the customer's attention. I follow with a features and benefits presentation that is designed to find out what would make the customer say "yes" to my request.

It is important to include questions throughout the presentation. Give the customer some information, ask a

question, and then listen. Some of the questions I like to ask are:

- Don't major or minor breakdowns come at the most inopportune times?
- Have you ever experienced any breakdowns, or have you been lucky up to this point?
- Do you need your automobile every day?

The presentation should describe the program to the customer so when its time to ask for the order they see the need in the product. It should also uncover the customer's hot button, that is, the specific benefit that they don't want to be without.

Once you created enthusiasm for the product it's time to get them to make a decision. Good closing questions are:

- Would you like to pay cash or just include it in your monthly cash outlay?
- Do you think it would be easier to pay \$25 per month or \$3,500 to replace an engine?

The most professional finance managers who are selling service contracts to more than half the people who purchase automobiles tell me that about 50% of customers that purchase a service contract initially object to their offer.

So to effectively sell this product you must be good at overcoming objections and taking the customer smoothly through the close.

There are many objections customers can come up with as to why they won't go ahead with the service plan. Here are a couple that I hear most:

"The service contract costs too much."

To that, I say, "Mr. and Mrs. Doyle if I were unsure whether the plan was worth \$1,500 I would hesitate going ahead with it as well. Can we take a look and see just how long it would take for you to get your money back? (Wait for a response.)"

"The price for labor today to have a vehicle repaired is \$75. Parts are typically two times the labor price or \$150. That means each hour that you have your vehicle serviced it will cost \$225.

"The price of the service contract \$1,500, divided by the hourly labor charge of \$225, means that you will break even when 6.67 hours of labor is preformed on your vehicle that's covered by this service contract. Less than a day's work and you get your money back. Mr. and Mrs. Doyle you can either pay cash for the plan or include it right in your monthly payment, which ever makes more sense to you?"

"The payment is too high."

I say, "I understand. You're like me; you like to have a fixed payment that's within

your budget. (Wait for response.)"

"That's exactly what you get if you add the service contract to your payment. You'll have a fixed payment of \$350 for 60 months. If you don't, your payment will be \$325, but it will vary as breakdowns occur. For example, if your air conditioner compressor were to break. That month your payment would be \$325 plus \$700 for the compressor for a total of \$1,025. If something major like your transmission were to break (\$2,750), your payment would actually come to \$3,075. Mr. and Mrs. Doyle, do you think it would be easier for you to pay \$350 per month or have to pay the \$3,075 if your transmission were to fail?"

"I won't need the service contract."

"I hope not, but unfortunately we don't know which cars will break and which ones won't. All of our vehicles have been inspected, but you can't predict what will happen to them as they wear. Could I ask you a question? Do you have fire insurance? How about something more related to the vehicle like automobile insurance? How much do you pay a year for your car insurance? (If they don't say what their premium is assume an average premium of \$700 per year)."

■ Comparison

	Car Insurance	Service Contract
Cost for 3 years	\$2,100	\$1,500
Deductible	\$250	\$100
Rates	Could go up	Won't go up
Company could cancel	Maybe	No

"Mr. and Mrs. Doyle, as you can see the price of the service contract is much less than regular automobile insurance, the deductible is lower, and they can never cancel your policy. Which do you think you are more likely to need over the next three years?"

It is our responsibility to our customer that we give them a good features and benefits presentation, overcome their objections, and then take them smoothly through the decision process. The preferred response is "yes," but getting them to make any decision will help you more times than not, especially when the product you're offering them is a win for the customer. ■

Ron Martin is the author of the book "The Vision of Finance and Insurance" and a national sales trainer and consultant. You can learn more about his company, The Vision of F&I, Inc., or order his book at www.thevisionoffandi.com