



Report into Extended Warranties

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1. Introduction

The Office of Fair Trading, as part of its responsibility to review activities that may be detrimental to the economic interests of consumers, are in the process of a comprehensive research study which is looking at the sale of Extended Warranty policies in electrical retailers.

The study builds on two previous reports on Extended Warranties for electrical goods in 1994 and 1996. Both these studies concluded that there was insufficient information available to the consumer within stores. As a result, The Office of Fair Trading made a number of recommendations which resulted in electrical retailers adopting a voluntary Code of Practice endorsed by the British Retail Consortium. The Code of Conduct has been in operation since May 1995.

As part of a wider research study, the specialist mystery shopping division of Taylor Nelson Sofres was commissioned to re-examine the market to establish how well the Code of Practice is operating and to obtain relevant information. The study was commissioned to better understand the actuality of service in terms of sales technique, pricing and point of sale material.

2. Research Objectives

In response to anecdotal evidence and claims that retailers were not observing the spirit or the letter of the Code of Practice, The Office of Fair Trading was looking to:

- measure the visibility and availability of clear written information available at electrical retailers
- measure the level of compliance with industry codes of practice at point of sale
- measure the activities of sales staff when talking about and selling extended warranty products

In real terms, this required providing answers to the following questions:

- Are warranty prices being displayed?
- Are leaflets displayed prominently for consumers to take away?
- Are extended warranties included in the package when taking out retailers' credit?
- Do retailers promote manufacturers' or any other warranties?
- Is it clear the manufacturers' warranty is included in the extended warranty?
- Do retail staff suggest that products will require more repair, be less reliable or suggest that getting repairs might be difficult?
- Is there any evidence of extended warranties being linked to heavily discounted products?
- Is any undue pressure being applied to customers to purchase extended warranties?

The results from this study are to be used to further the interests of the consumer.

3. Summary of Findings

The results of this study appear to confirm the initial concerns raised by The Office of Fair Trading prior to this research.

In summary:

- 48.2% of stores displayed Extended Warranty leaflets which were *clearly visible*
- 41.6% of stores displayed Extended Warranty signage which was *clearly visible*
- 23.6% of stores displayed signage which referred to the price of warranties (manufacturer or retailer)
- 57% of stores gave details about manufacturers' extended warranties
- 55.6% of store staff made it clear that the period of extended warranty included the manufacturers' guarantee
- 22.6% of store staff said something negative about the manufacturers' extended warranty policy (of those who provided detail on manufacturer policy)
- 22.5% of store staff suggested the cost of repairs on the product enquired about would be high
- 7.4% of consumers (assessors) felt under pressure to take out an extended warranty
- 16.4% of store staff assessed did not display an adequate understanding of extended warranty policies



This study has also identified trends within retail groups which should be examined in more detail. Much of the key messages can be applied to all electrical retail groups assessed as part of this study. However, the data also indicates that the larger multiple chains such as Comet and Currys are more likely to display point of sale signage and leaflets than the smaller multiples or electrical independents. Conversely, these larger multiples are more likely to use sales staff to *sell* their own extended warranty policies.

Although perhaps not significant, there is a disparity between the way in which retail staff sell warranty policies on washing machines and televisions. It appears staff are more confident of selling policies on washing machines.

All of these top-line findings will be further investigated in Section 5 of this report. If you require any further analysis please do not hesitate to contact Liz Flitney at TNS Mystery Shopping (elizabethflitney@tnsofres.com).

4. Methodology

The following section provides an outline description of how this study was conducted. Understanding this process will also help you interpret the report findings.

4.1. The Products

Each store visit required a TNS assessor to enquire about a specific electrical product which had both an optional extended warranty product provided by the manufacturer as well as an optional extended warranty product provided by the retailer. To ensure as much as possible this took place, TNS rang all major retailers and product manufacturers included in the study to confirm these two points.

The store enquiry focused on two products where the selling of extended warranties was known to be widespread:

- washing machines were chosen from the 'white' goods market
- televisions were chosen from the 'brown' goods market

Assessors were asked to choose a product from within a broad price range to ensure a variety of makes, models and potential selling practices could be measured.



4.2. Sample & Sample Size

Fieldwork was conducted on a nationwide basis. In total, 1000 individual retail sites were visited during a three-week period in late July and early August.

The retailers chosen were based on their approximate market share as reflected in the Home Audit Panel (as supplied by GFK Marketing Services). The *GFK Home Audit* is a semi-continuous panel achieving around 25,000 household responses per quarter across 70 different durable and household goods markets. It covers household consumer purchases in Great Britain only. This information shows retailer market share by volume and value of sales.

TNS Mystery Shopping selected the sample of stores to be visited based on the market share (by retailer/product) identified from the GFK Home Audit. After a review of market data, TNS Mystery Shopping, in consultation with The Office of Fair Trading, agreed to focus on the top five Retailers by product. For both washing machine and televisions, the retailers were:

- Comet
- Currys
- Department Stores (i.e. Bentalls, Alders, Debenhams, House of Fraser, Co-op, John Lewis)
- Independent
- Scottish Power

With a sample size of 500 for each product type, the sample was constructed using their approximate market share. TNS Mystery Shopping sourced all retail information from existing records and from web sites and local directories.

4.3. The Measurement Standards

TNS Mystery Shopping strongly recommended that the measurement focus on the collection of objective (factual) information. It is well documented that the service measurement process is better served by the design of objective standards which can provide actionable and repeatable measurement.

However, the measurement standards developed have incorporated a number of more subjective questions which were deemed necessary to ascertain whether customers felt under undue pressure to purchase extended warranty, or whether assessors believed staff appeared knowledgeable about extended warranty policies.

The measurement standards were supported by written commentary, often in verbatim, in order to add value and understanding to the measurement.

4.4. Conducting the Visit

It was important the behaviour of assessors did not alert retail staff to mystery shopping activity. This is of particular relevance in the electrical retail sector where the majority of retailers operate service measurement programmes and staff are practised at 'spotting' mystery shopping activity.

Consequently, a realistic scenario was developed to enable an effectiveness measure of point of sale material and to evaluate what sales staff were saying about extended warranty policies. Assessors were first of all asked to browse the store to assess point of sale material. Only after several minutes, or having been approached by a member of staff, would the discussion turn to the product enquiry. Even at this stage, assessors were specifically briefed not to raise extended warranty questions unless the member of staff introduced such policies. Assessors were asked to prompt for extended warranty information only if they felt the member of staff was unlikely to raise the issue. This scenario was developed to reflect typical customer behaviour.



Each assessor was tasked with finding the answer to a number of key questions. As already discussed, the assessor was asked to allow the member of staff every opportunity to discuss extended warranty policies (and related issues) without prompting or directing the conversation. Only if the member of staff was unlikely to talk about aspects of extended warranty would the assessor prompt for more information.

The store visit could be broken down into three parts:

Part 1 – Point of Sale Material

The assessor entered the store and spent two minutes walking around the store looking for point of sale material which related to extended warranty policies. The time was limited to two minutes to reflect typical consumer behavior.

During this time, assessors were asked to look out for signage, display material and leaflets which related to extended warranty (both manufacturer and retailer). The assessors were made fully aware that point of sale material did not necessarily have to use the word 'extended warranty'.

Assessors were asked to browse the store rather than look at every piece of point of sale material on display. This approach was considered in order to measure whether Point of Sale was 'clearly visible'.

If the assessor was approached within two minutes they would explain they were browsing. Only having conducted the two minute *visibility and availability check* would the assessor enter the appropriate department or section for further assistance.

Part 2 – Showing Interest in the Product

Having located the electrical item, the assessor would begin actively showing interest in the product. If the assessor was not approached, then they were asked to seek assistance from a member of staff.

Assessors were instructed NOT to ask questions about the extended warranty policies at this stage. Acting as a normal customer would, they engaged the member of staff in conversation about the product. This part of the visit was seen as important in re-creating the typical customer experience. At this stage, the assessor was asked to listen and respond to questions asked where appropriate.

Assessors were briefed to provide every indication that they were willing to buy today i.e. by saying statements such as 'my washing machine packed in this morning'. As retail training courses tend to ask their staff to introduce the idea of extended warranty at an early stage, expectation was that we would encounter little difficulty in getting staff to talk about warranties.

Once the conversation had moved onto extended warranty policies, assessors began the task of answering the questions we posed them by listening or prompting.

Part 3 – Concluding the Assessment

Having taken the conversation almost to the point of purchase, the visit was ended by the assessor stating they would not be purchasing today as they believed the extended warranty policy was too expensive. Whilst this provided an end to the visit, it also provided one final opportunity for retail staff to use their sales techniques.



4.5. MRS Guidelines

Under the Guidelines on Mystery Customer Research issued by the Market Research Society, limitations are placed on the amount of time a mystery shop visit can take place on non-client staff. These guidelines are specifically designed to consider the effects of commission based staff such as electrical retail staff.

The permissible length of time spent with a member of staff is referred to as 'reasonable time given the nature of the market and the type of enquiry'. This means time should be kept as short as possible and should not be seen to waste the organisation resources in any way other than a normal customer might do.

Following consultation between TNS Mystery Shopping and The Office of Fair Trading, it was agreed the length of an enquiry would, on average, not exceed 15 minutes.

5. Research Findings

This section looks at the key findings of the study as reported in the tabulations. It is anticipated a number of issues raised in this report will require more rigorous investigation in due course.

5.1. Visibility & Availability – Compliance at Point of Sale

The 1994 & 1996 reports into Extended Warranties on Electrical Goods made recommendations that all retailers should prominently display all display material and leaflets *'to catch consumers' eyes and for them to take away'*. This recommendation is further supported by the voluntary Code of Conduct supported by the British Retail Consortium at 2.1.

These research findings indicate that these recommendations are not being widely implemented.

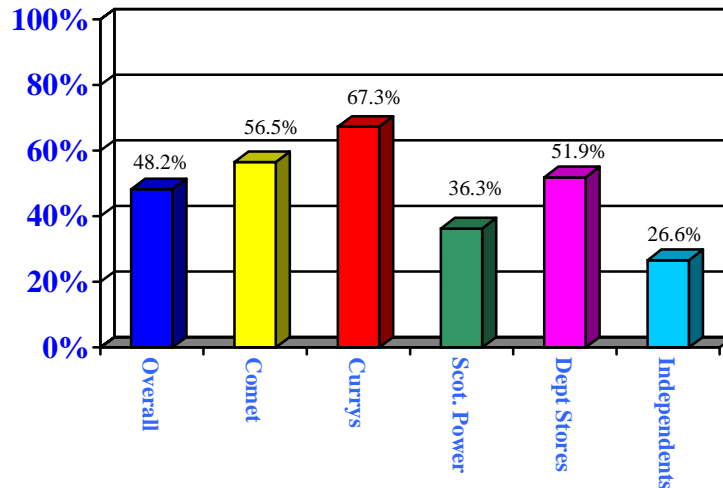
The research found that 48.2% of retail outlets had *extended warranty leaflets clearly visible on display* somewhere in the store.

- 41% of stores displayed leaflets within the specific product area/department
- 42% of stores displayed leaflets somewhere else within the store

These figures on leaflet visibility vary by retailer. It appears Currys (67%) and Comet (56.5%) are far more likely to display leaflets than Independent stores (26.6%) or Scottish Power (36.2%).

Note: the 1996 report on *Price Transparency in the Sale of Extended Warranties by Electrical Retailer* highlighted that around 40% of retail outlets had take-away leaflets on display.

Q1 Were 'Extended Warranty' leaflets clearly visible on display? Base: 1000

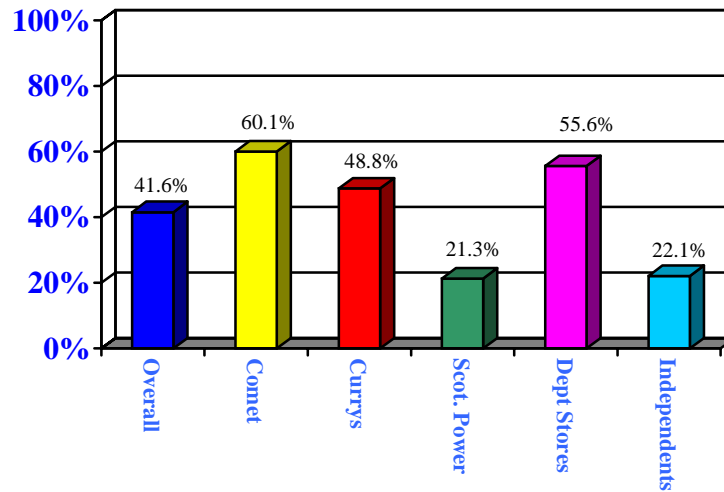


The visibility levels of leaflets in-store is supported by further data on their availability. The total number of assessors who either picked up a leaflet (24.2%) or were provided with a leaflet by a member of staff (38.9%) was 63.1%. This figure was reached having either picked up information or prompted a member of staff for such information.

The data indicates that the visibility of signage related to Extended Warranties is less prevalent than the visibility or availability of leaflets. Having conducted a visual search of the store, assessors concluded that signage was clearly visible in 41.6% of stores visited. This compares with 48.2% of leaflets.

Again, as with the leaflets, the differences between retailers are marked. Comet (60.1%) and Currys (48.8%) are far more likely to be displaying signage than Independents (22.1%). Interestingly, Scottish Power, which is considered to be a major multiple retailer, only has visible Extended Warranty signage in 21.3% of its stores.

Q3 Was the signage related to 'Extended Warranty' clearly visible? Base: 1000

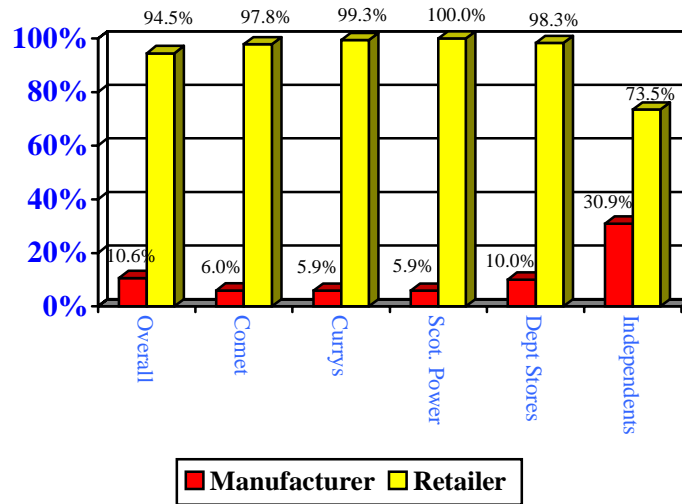


This variance is further understood by looking at the type of signage on display. Of those stores (416) displaying Extended Warranty signage, 94.5% (393 stores) were displaying signage related to their own retail policy. Only 10.6% (44 stores) displayed signage related to a manufacturer policy.

Of the major multiples retailers (Comet, Currys, Scottish Power) whose stores displayed signage, virtually all displayed signage related to their own extended warranty policies (between 98% -100%). These multiples are highly unlikely to display signage related to manufacturers' extended warranty. Only 6% of multiples (Comet, Currys, Scottish Power) who display warranty signage, display information about the manufacturer policy.

The Independents, again in stores with signage, are less likely to display their own warranty signage (73.5%) than the major multiples. However, they are more likely to display signage related to manufacturers' extended warranty (30.9%).

Q4 Did 'Extended Warranty' Signage refer to Manufacturer or Retailer? Base: 416



Looking at those stores who display extended warranty signage in-store, just over half of stores (54.8%) include the prices of warranties on signage. This data would indicate that the pricing message on both retailer and manufacturer signage, and by retailer, appears inconsistent.

Of the 44 stores which displayed manufacturers' extended warranty signage, 25 stores (or 59%) refer to prices. Of the 393 stores who display signage related to their own extended warranties, 211 stores (or 53.7%) refer to the price of the policy. Please refer to Q5 data for more detail.

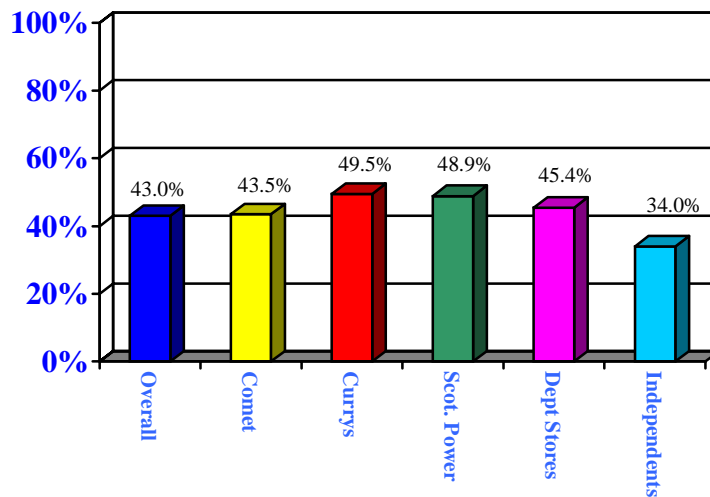
Note: the results in this section are based on the measurement of an assessor whose role it is to identify the visibility/availability of point of sale material. Whilst these figures may slightly under represent actuality, the data has been collected from a consumer perspective.

5.2. Retail Staff – Manufacturers’ Extended Warranty

As indicated in the methodology, TNS Mystery Shopping tried to ensure that the products enquired about had the option of a manufacturer extended warranty policy as well as a retailer extended warranty option.

The data at Question 7 (Did the member of staff give details about the manufacturers’ extended warranty policy?) raises questions about whether such policies are indeed available at retailer outlets. The data indicates that 43% of retail outlets visited could not confirm the availability of a manufacturers’ extended warranty by either voluntarily offering information or being prompted by the assessor.

Q7 Member of staff unable to provide details about manufacturers’ extended warranty policy? Base:1000



As the graph shows, this varies by retailer group. As expected, the Independent stores are more likely to offer the manufacturer policy (66% gave details either prompted or unprompted) than the multiples (Currys and Scottish Power both 51%).

Focusing on those retailers who confirmed or were prepared to talk about the existence of a manufacturer's extended warranty (either prompted or unprompted at Q7), it appears a relatively high proportion (22.6%, i.e. 129 of 570 stores) of these staff were prepared to make statements which could be seen by the consumer as a deterrent to purchase the manufacturer's extended warranty policy.

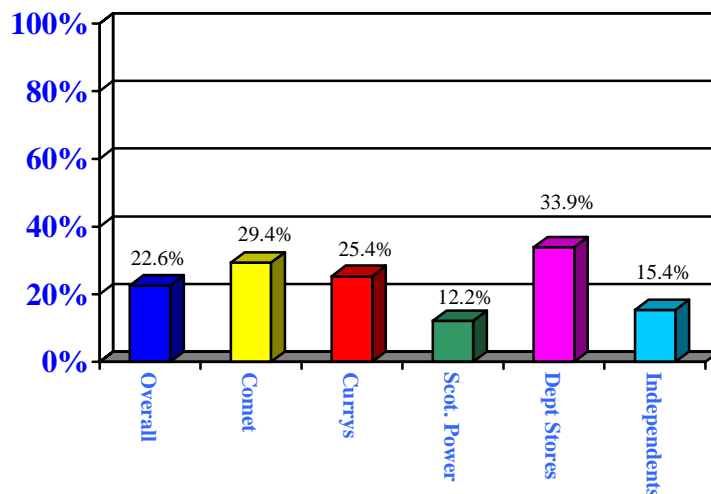
The data shows that:

- 12.6% of stores who confirmed the existence of a manufacturer's extended warranty talked about the manufacturer warranty being more expensive than the retailer warranty
- 14.9% of stores who confirmed the existence of a manufacturer's extended warranty talked about the manufacturer's warranty being less comprehensive
- 5.6% of stores who confirmed the existence of a manufacturer's extended warranty talked negatively about the warranty in other ways. These reasons were numerous and varied. Some of those included:
 - the policy had to be renewed every 12 months
 - labour charges
 - delay in coming out
 - policy did not include accidental damage
 - call out fee
 - no cashback
 - waste of time/money

Looking at specific retailers, the data indicates that Comet, Currys and Department Stores are up to twice as likely to say something negative about the manufacturers' extended warranty policy than Independent stores (15.4%) or Scottish Power (12.2%)

Q10 Did the member say anything negative about the manufacturers' extended warranty? Base: 570 stores

(those that had responded prompted/unprompted at Q7)



Interestingly, of the 430 retail outlets who could not provide details about a manufacturer's extended warranty policy, 100 of them (or 23%) still had something negative to say about manufacturer policies.

5.3. Retail Staff – Product Knowledge

How staff talk about the policies and product on offer clearly influences sales of manufacturer or retailer extended warranty policies. Having considered some of the comments being made about manufacturer policies, we now turn our attention towards what retail staff are saying about the product itself. Are comments being made which can unfairly influence the consumers' purchase decision?

The findings at Question 14 show that in 74.8% of all stores visited, no comments were made which could be seen as potentially influencing consumer purchase behaviour on extended warranties. However, this figure means, that in a quarter of all stores at least one comment was made which was product critical. The cost of repairs appeared to dominate these comments with 22.5% of stores making a claim that the cost of repairs would be high.

- 22.5% of staff indicated the cost of repairs would be high
- 2.4% of staff mentioned the product could be unreliable
- 3.7% of staff said the product could be difficult to repair

The reasons being supplied are varied but include comments such as:

“Call out charges will be very high if no extended warranty”

“Bosch call out charges are normally very high”

“The tube could go and that would be expensive to repair”

“It's not so much the cost of the repair but the cost of labour that would be expensive”

“The cost of calling our a repair man is £40 before he's even looked at the machine”

Interestingly, there does not appear to be a significant difference in what staff are saying about washing machines (26.65% were product critical) and televisions (24.55% were product critical). The cost of repairs again dominated the statistics (22.85% washing machine, 22.2% televisions).

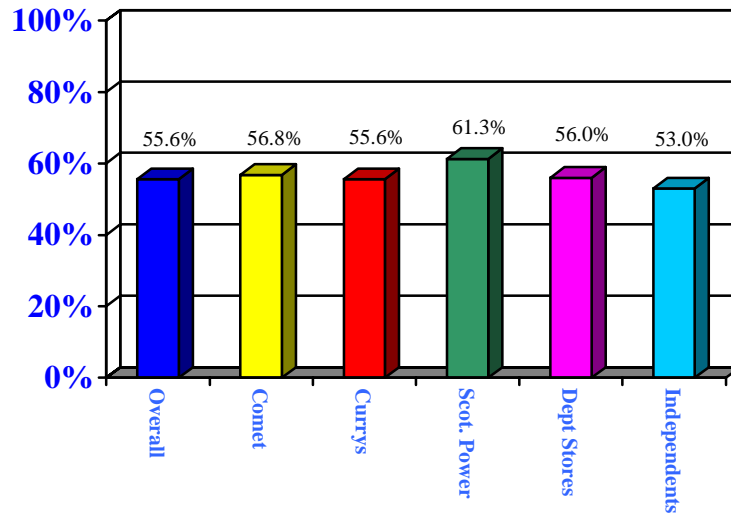
5.4. Retail Staff – Retailer Extended Warranty

One of the key issues surrounding the sale of extended warranty is consumer understanding (or misunderstanding) of the relationship between retailer extended warranty policies and the manufacturer’s guarantee. The findings at Question 9 indicate that 55.6% of retail staff make it clear, as part of the sales conversation, that the period of extended warranty cover includes the manufacturer’s guarantee.

As the graph below illustrates, department stores and multiple retailers are better at verbally communicating this information.

Q9 Did the member of staff make it clear that the period of extended warranty included the manufacturer’s guarantee? Base: 981

(includes all stores who confirmed the existence of manufacturer guarantee at Q6)





If a broader view of communication (both verbal and written) is taken on this issue, then a healthier picture emerges. If we analyse the data:

- by looking at the availability of leaflets describing extended warranty terms and conditions (and assume each leaflet has manufacturer details)
- together with whether staff are making it clear that the period of warranty includes the guarantee period

We find that up to 74.6% of stores could be communicating these conditions in some way.

5.5. Retail Staff – Assessor Impression

This study has focused on the objective measurement of standards related to warranty policies. However, the study has also taken the opportunity to ask assessors who took part in the study a couple of more subjective questions about perceived staff knowledge and whether they had considered themselves under pressure to purchase a warranty policy.

In reviewing these results, it is important to recognise that the assessors used by TNS Mystery Shopping have been specifically briefed and trained to conduct this study. Their thoughts or opinions, whilst valid, are the views of 'informed' customers.

Below are highlights of the findings:

Q17 Did you feel under pressure to take out extended warranty on the product?

Base 1000 stores

- 7.4% of assessors felt under pressure to take out extended warranty on products
 - 8% of washing machine enquiries
 - 6.9% of television enquiries
- of the multiple retailers, both Currys (8.9%) and Comet (9.4%) were twice as likely to 'apply pressure' than Independents (4.6%) or Scottish Power (5%).

The reasons being supplied are varied but include comments such as:

- "I had the feeling that without the policy I would lose out"
- "Two other sales people joined in the conversation trying to persuade me that it was in my best interest to take out at least the three year extended warranty"
- "The staff member made the cover seem indispensable"
- "The staff member explained it was worth the peace of mind to take the policy out"
- "There appeared no alternative but to purchase the TV with extended warranty"
- "The assistant was quite persistent showing me the folder with the call out and labour charges"

Whilst it appears the vast majority of retailer outlets do not exert unfair influence on consumers, evidence does exist that staff do exert pressure on customers, usually through the comments they make about the product or the cost of repair.

Experience tells us that the combination of manufacturers' guarantee, manufacturers' extended warranty and retailers' extended warranty can be a minefield for consumers. We asked our assessors whether they felt the staff member appeared informed about the subject (Q18. Base:1000)

- 83.6% of staff gave the impression they understood extended warranty policies
- 16.4% of staff gave the impression they did not

For those where assessors concluded that staff lacked product knowledge, the following comments were typical of what was being said or what was happening:

- "The staff member seemed confused by the detail of the extended warranty"
- "The staff didn't understand and admitted so"
- "The staff member simply gave me a leaflet"
- "The staff member gave no details"

As the study was conducted in late July and early August, one could argue that the emergence of summer staff could have boosted this impression. However, in reality, the provision of clear and concise information should take place irrespective of the time of year.

6. Conclusion

Following previous reports from The Office of Fair Trading in 1994 and 1996, the results of this study still indicate there is a fair degree of inconsistency with the application of the voluntary Code of Conduct.

This inconsistency not only emerges in the display and availability of point of sale material but also in what staff are saying about extended warranty products and the products they are attached to.

This inconsistency applies across the electrical retail market. The larger multiple retailers appear better positioned to comply with visibility and availability issues than the Independents. However, their staff performance leaves room for improvement.

The issue surrounding the apparent unavailability of manufacturer extended warranties should pose further questions outside this specific study.

It would appear there is still some way to go before the Office of Fair Trading can be confident that the Code of Conduct on the Extended Warranties on Electrical Goods is being adhered to consistently.

The results of this research study must cast doubt on whether the marketplace for extended warranty policies is a fair market for consumers.

Appendix 1

Research Recommendations

TNS Mystery Shopping would like The Office of Fair Trading to consider two further research projects, both using mystery shopping techniques, to help further understand and help drive improvement in key areas. TNS Mystery Shopping would be willing to discuss how these ideas could be implemented in due course.

1. Product and Warranty Purchase

The OFT may like to consider commissioning a mystery shopping project which would involve the purchase of extended warranty policies (this would also have to involve product purchases). This research would provide further insight into how retailers sell extended warranty policies at the 'true' point of purchase. It would also allow further quantification of the extent to which manufacturers make contact with consumers about their own warranty policies.

This type of research can be completed using mystery shopping techniques. The alternative is to question 'real customers' who have purchased/not purchased extended warranty policies – preferably via the telephone.

2. Tracking Study

This study, whilst reporting on the actuality of retailer compliance, should form the basis of retailer action and subsequent improvement. The only way of measuring whether improvement has taken place is to repeat this study in the future.

Following the publication of the OFT report on Extended Warranties, TNS Mystery Shopping would recommend repeating this study within 12 months. It is likely the OFT will make a series of further recommendations. How these recommendations are implemented will be key as two previous reports have yet to resolve this issue.

The OFT may also like to consider announcing this further study as part of the report. This would not only provide evidence of the OFT's determination on this matter but should also stimulate the retailers to take immediate action.



Appendix 2

Data Tables