

# The woes of extended warranties

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An extended warranty may be purchased at the time you buy your electronic device or appliance; it may also be possible to purchase one much further along in your ownership experience. If you're the type who likes to be prepared for all eventualities, an extended warranty may be just what you're looking for. Bearing in mind the ever-increasing cost of electronics repairs, these contracts can make a lot of sense. The purpose of this paper is to delve into consumers' viewpoints on extended warranties.

The topic will be further analyzed by studying the extended warranties offered by Future Shop and RadioShack. Then, a few consumer interviews will be presented detailing their previous experiences with extended warranties from the two stores. Lastly, the paper will conclude with a brief discussion on the validity of extended warranties.

**Definition of an Extended Warranty** An extended warranty is a contract purchased to protect the consumer goods against the unexpected costs of breakdown, for a specific period of time. The time can range from period of 2 to 4 years.

This normally begins after manufacturers guarantee. These are usually bought directly from the retailer and sometime offer coverage for theft and accidental damage.

**Background Information on Future Shop** Established in 1982, Future Shop's first store was located in Vancouver, British Columbia and showcased 4, 000 square feet of the latest consumer electronic products. During in the late 1980s, Future Shop followed an aggressive growth strategy, quickly expanding operations in provinces of Alberta, Manitoba and Ontario.

In some 20 years, Future Shop has grown from a "one store operation" located in Burnaby, British Columbia, to Canada's largest, fastest growing national retailer and e-tailer of consumer electronics with more than 100 stores from coast to coast and still growing. Background Information on RadioShack Radio shack on the other hand was established in 1919 in Fort Worth, Texas. Two brothers, Theodore and Milton Deutschmann, opened the first retail store in the heart of downtown Boston.

RadioShack has formed strategic alliances with some of the best known and most trusted brands in the consumer electronics and computer industries - including Compaq, RCA, Sprint and Verizon Wireless. They have positioned themselves for consistent and sustained growth. In just over five years, RadioShack has essentially "reinvented" itself into an innovative company that is, with each passing year, moving further from a traditional retailer to a leading-edge growth company. Benefits of Purchasing Extended Warranties

- 1) Offer peace of mind
  - 2) Allow repairs to be made when one needs them.
  - 3) Most include a replacement good if there are no available parts for repair in shop.
  - 4) Protect against the rising cost of repairs.
  - 5) Added resale value - most is transferable.
- 1) Allows repairs to be made in accordance with level of coverage.
- 2) Ensures consumer goods are always in best possible mechanical condition.
- Major Drawback of Purchasing Extended Warranties
- The average cost of the warranty policy is often much higher than average cost of repair. Improved product designs mean that appliances do not break down the way they used to.

In general, appliances are more reliable and most people won't need to use their extended warranties at all. For instance, it is sensible to pay \$8 for an extended warranty on a kettle when the replacement price is \$30. " An extended warranty can cost from as little as 10% to more than 30% of a product's retail price. Some industry observers claim that because of the razor-thin margins on electronic goods, certain chains make more money hawking warranties and service contracts than they do selling actual merchandise. " (Menzies, 2001)