

To Buy or Not to Buy: The Quandary of Warranties

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With four children, a 100-pound dog and a busy home office, Jim Zahniser, a communications manager near Portland, Ore., follows a simple rule in evaluating extended warranties: "I ask myself, Does it look like the product will get damaged in daily normal use?"

Melanie Conner for The New York Times Jim Zahniser made use of the extended warranty on his digital camera. The warranty he bought on the laptop used by his daughter, Anni, has not been needed, although laptops are considered high risk for damage.

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Last year, he bought an extended warranty for a digital camera and, at Christmas, he purchased an expanded warranty on his daughter's laptop. "She's 16," he said. "I figure she's a high-risk laptop user." So far, the laptop has been dropped "a few times, but it's O.K." But last October, the camera's tiny liquid-crystal-display screen turned black and blue. "You couldn't see what you were taking a picture of," Mr. Zahniser said in a telephone interview. The cost of the camera was \$549. The extra warranty was "\$160 to \$180," or 29 percent to 32.7 percent of the product price, and he expected the dealer to hand him a new camera. Instead, it was sent for repair, and he didn't see it again until January, long after the holidays. The camera now works great, he says, and he doesn't feel cheated. "It was in the contract and I signed it," Mr. Zahniser said. "But I wasn't happy at the time. In fact, I wasn't happy at all." In the crowded, often confusing world of extended service warranties, ambivalence is common. Such product "accessories," as some sales representatives call them, are available for cellphones, home office machines, washers and dryers, exercise equipment, televisions - in short, everything from \$9,000 stoves to \$20 DVD's. And they seem like a good idea: products are increasingly complex, with electronic elements that are expensive or impossible to repair. "In the past there was no such thing as an appliance repair that cost more than \$400, but today, \$1,000 repairs are not uncommon," said Paul Myer, a California consultant in appliance retail who trains sales representatives in selling warranties. So hot is the market in extended warranty sales, which Mr. Myer said is a \$15-billion-a-year business, that there are even nonproduct-specific versions. "You can get them on \$100 of expenditure, for whatever is bought with that \$100," said Professor Duncan Simester, a specialist on retail business at the Sloan School of Management at the Massachusetts Institute of Technology. Retailers view extended warranties as a way (and one requiring no shelf space) to lift profits in competitive markets. Consumer advocates say they are a waste of money. And consumers quickly find it is almost impossible to shop for a good warranty deal as they would for other products

Moreover, a confusion of terms lies at the heart of the extended warranty business. What practically everyone calls extended service warranties are not express or implied manufacturer's warranties, which might be seen as an indication of an item's quality, Professor Simester said. "When Best Buy or Circuit City offers warranties, that says nothing about quality," he said,

adding: "This is just insurance." He says he thinks the system is fair: "My impression is that it works," he said, and that if something goes wrong with a product, the provider of the warranty will fix it. The records are often kept electronically and are easily retrieved if customers lose the paperwork. "So," he said, "the question is, Is it worth the insurance?" Repairing a ruined laptop screen costs about the same as a new machine, or \$1,000 for a top-of-the-line model. So a policy that covers repairs or replacement for any reason, including damage caused by the customer, makes sense, said Bill Owens, a vice president at Lenovo, which sells I.B.M. ThinkPads. He buys three-year coverage for his family's laptops, "even though I could fix it myself." Cellphone coverage, on the other hand, is less easily fathomed.

Millions of cellphones disappear or are damaged each year, and some kind of coverage sounds practical. Usually offered by service providers for about \$5 a month, the plans seem cheap. If you often lose phones, or if yours is stolen in three months, coverage can save money. But depending on the company and the fine print, there might be a \$50 deductible and limitations - for example, repairs might be covered only if the damage is not the customer's fault. If a phone lasts 23 months before it breaks, the cost of coverage could be \$165 (\$115 in premiums, \$50 for the deductible) on a phone that might sell new for \$150 or, with rebates and special offers, might cost nothing. Sears, in many ways the trailblazer for extended service warranties on household appliances, manages its own maintenance services, but most retailers sell plans on commission for third-party warranty companies. The consumer can lose track of who is actually backing the service, if it's needed, or what training they've had.

Adding to the confusion, consumers can - depending on the store - purchase extended warranties for an individual item or in discounted packages where the price is proportionally reduced if you buy warranties for more than one item, like a washer, dryer and dishwasher together. In some cases, coverage is even offered for a flat 10 percent of the purchase price - often used for lower-cost products like video games and DVD's.

In electronics, the gross margin for merchandise - the difference between what a store pays for goods and what it sells them for - is "25 percent, give or take," at chains like Best Buy, Circuit City and PC Richards, said Professor Alan Kane of the Columbia Business School. Extended service contracts, on the other hand, produce a gross margin of "45 percent or more," he said.

Bill Cimino, a Circuit City spokesman, said that 3.8 percent of the company's total annual sales of \$10 billion, or about \$380 million, are warranty sales for third-party insurers - or protection plans, as Circuit City calls them. Mr. Cimino said he bought one himself on a television, but declined one on a humidifier.

"We walk the customer through the protection plan, explain what it covers and what it doesn't cover," he said. There's an escape clause: "Say you bought it and had buyer's remorse - and we hope you don't - you always have the right to call and cancel for 30 days."

Consumer Reports generally advises against buying extended service contracts because "the cost of repair is probably equal to the cost of warranty, so you should probably just keep that money in your pocket," a spokeswoman, Lauren Hackett, said.

One Consumer Reports survey found that three years after purchase just 5 percent to 7 percent of televisions needed repair, and 13 percent of vacuums (not counting belt replacements). But 33 percent of laptops had been sent to the shop or the recycle bin.

The consumer group does recommend extended service policies on three items, Ms. Hackett said: laptops, treadmills (they are too cumbersome to take to the shop, she said, and service calls

are expensive) and plasma TV's, because the technology is new and "if you are spending \$5,000 for a TV set, you might want to get a warranty."

Some consumers skip extra coverage and choose, when possible, products with long-lasting manufacturer's warranties. Treadmills from Precor USA, where Mr. Zahniser works, include a lifetime warranty on the body, 10 years on moving parts and a year on labor. "Usually if a problem arises, it's the first year," he said. If buyers want extra warranties, dealers will usually sell them.

But that, too, can boomerang. Linda Lasky, a legal secretary in Manhattan, once bought a "really good" VCR and an extended service warranty. "Within two months it broke, and it was under the manufacturer's warranty," Ms. Lasky recalled. "So the additional one I bought was useless."

At the Consumer Law Center in Boston, Stuart Rossman, a staff lawyer, likens the purchase of extra warranties to gambling. "I am always assuming that the dealer will have the advantage," he said. He says it is better to create "your own repair fund," though maintaining it, he admitted, can be difficult.