

SmartSpending



Is extra coverage worth your while?

Extended warranties are available for cars, electrical appliances, computers, cameras and so on. Here is what you need to know before forking out money.

by Sreerema Banoo ◀

When Shirley Thien bought a dishwasher earlier this year, she decided to take up an extended warranty for a further three years, which cost her an additional RM639. Although a two-year warranty came with the RM4,290 dishwasher,

Thien decided on the extended warranty because she was concerned about the high replacement costs for parts. "I was told that the water pump costs RM380, so if it happens to break down within the warranty period, then I won't feel the pinch," she reasons.

Thien is not alone. Many consumers are forking out extra to extend the

warranty period for their items. Often, salespersons persuade consumers on the benefits of buying extended warranty, with "peace of mind" being one of the top sales pitches.

Writing in the Harvard Business Review blog, Rafi Mohammed, a pricing strategy consultant and author of *The 1% Windfall: How Successful Companies Use Price to Profit and Grow*, says the "peace of mind" argument is compelling and has merit. "First, they allow consumers to avoid the anxiety and financial loss of an unexpectedly high repair bill. Second, if a product breaks, consumers do not have to invest time to search for a company to undertake the repairs. It's also comforting to know that if a product is not repairable, it will be replaced. Finally, 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," he writes.

CNET writer Erica Ogg says extended warranties can be helpful if you do not want to or do not have the means to take something in for repair. "Some plans will include in-home service contracts, so the technician comes to you instead of you hauling the device into a store or repair shop. This might cost a bit more, but it might make sense if you live a long way from the place that does the repairs."

On the other hand, Consumer Reports believes that most extended warranties are just not worth the money. The US-based non-profit organisation, which tests and rates thousands of products, says because most products are either covered by manufacturer's warranty or simply do not break down, it is usually wiser to save your money and play the odds.

In an article entitled "Why You Don't Need Extended Warranties", the organisation, which also publishes a monthly magazine, *Consumer Reports*, says extended warranties are "notoriously bad deals" because some repairs are already covered by the standard manufacturer's warranty that comes with the product. In addition, its data reveals that products seldom break down within the extended-warranty period, and when electronics and appliances do break down, the repair costs are the same as what you paid for the extended warranty.

The organisation, which is known for its stance against extended warranties and has long advised consumers against them, says the most cautious of consumers may want to consider an extended warranty for "a repair-prone brand, provided that the warranty is both inexpensive and comprehensive and the cost of repairs tends to be high". ■

OTHER THINGS TO CONSIDER

What does the standard warranty cover, and is that sufficient for you?

➔ Most electrical products come with a one-year manufacturer's warranty for parts. Some standard warranties include the cost of repair or labour for a limited time. CNET writer Erica Ogg points out that a year is going to be "plenty of coverage for most electronics, so make sure you know what the manufacturer will cover before considering paying for extra coverage".

Quoting *Consumer Reports*, Ogg says three- to four-year-old gadgets do not need repairs all that often. After three or four years, laptops need service about 43% of the time, desktops 31%, camcorders 13% and digital cameras 10%. In addition, three to four years is also a long time when it comes to technology these days. And as the cost of laptops and desktops continue to drop, sometimes the cost of replacing the device isn't that much more than getting it repaired, she points out.

Where the standard warranty is skimpy, it may, however, be worth forking out extra for the extended

warranty. *Consumer Reports* notes that Apple's 90 days of phone support on its products — including computers, iPods and iPhones — makes the company's AppleCare Protection Plan (which provides three years of support) worth considering, especially if you do not want to or do not have the means to take the product in for repair. With the plan, customers can have a repair consultation over the phone after the 90-day complimentary period expires at no additional charge.

What does the extended warranty cover?

➔ Identify the repairs that will be covered, the circumstances under which they will be carried out, and whether you have to deliver the product to the retailer or to another location for the repair. Check to see whether there are limits to the number of covered service calls, and ask whether the appliance will be replaced if it is a lemon (cannot be fixed after a number of attempts).

Find out what the coverage terms mean. For example, an inclusive warranty means that the

extended warranty overlaps with the manufacturer's warranty. So, a three-year extended warranty only gives you two additional years of coverage on top of the existing standard one-year warranty.

What does the extended warranty cost?

➔ Some extended warranties can cost more than the cost of a typical repair, in which case, it simply does not make financial sense to fork the extra money. And in instances where the cost of the extended warranty is almost as much as the product itself, well then, you may be better off just taking your chances. *Consumer Reports* recommends not paying more than 20% of the purchase price of the product for an extended warranty, and do try to negotiate a better price for one.

Check your credit card

➔ It also pays to check the terms of your credit card. Some cards, most often gold and platinum versions, extend the manufacturer's warranty by as much as a year and provide similar coverage to extended warranties. ■