

# Benchmarks to Optimize & Maximize Service Contract Sales

Results of 2020 Survey



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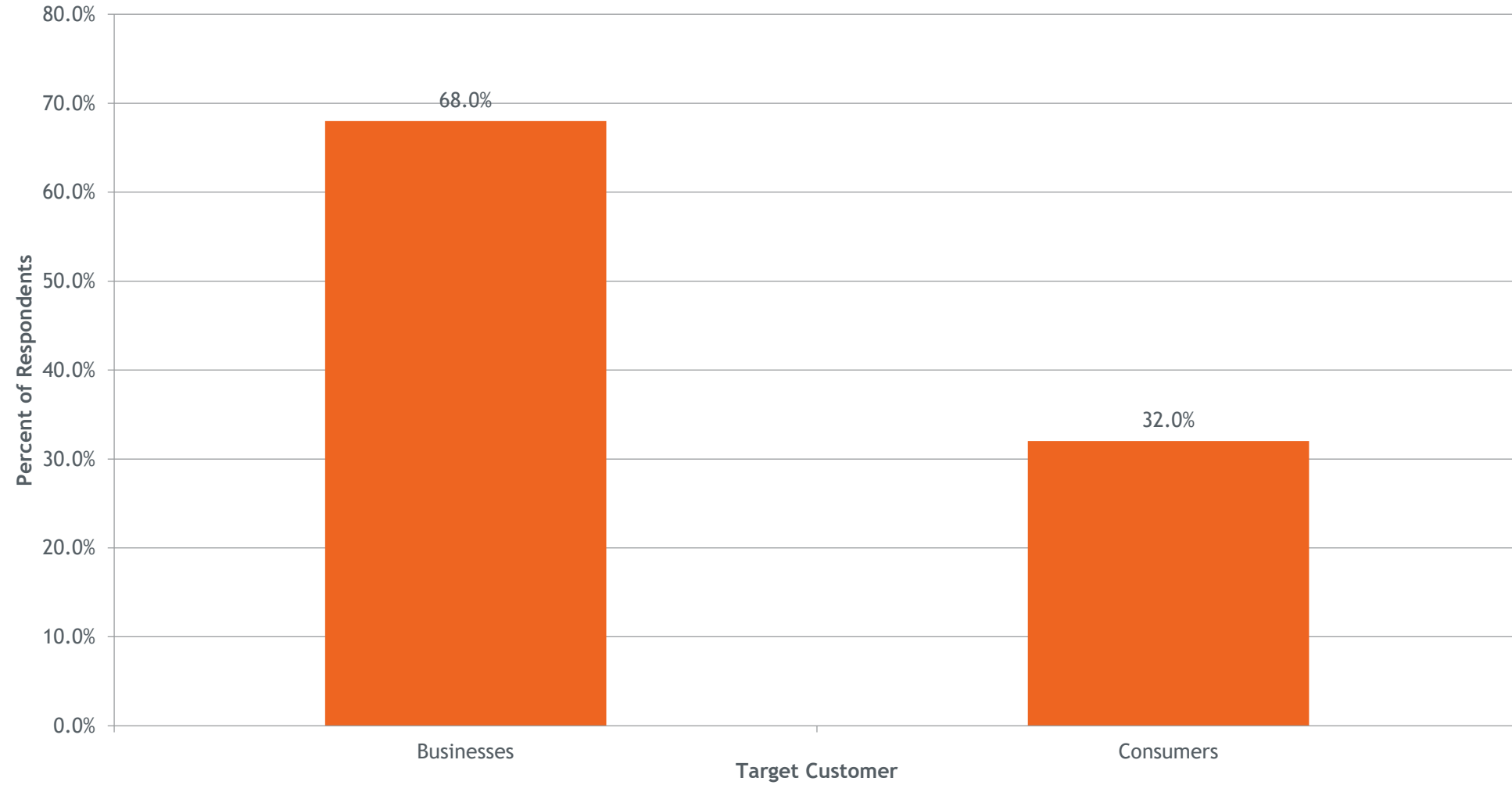
# Background

- Mize conducted a study among service executives and warranty professionals who are involved in marketing and selling service contracts and extended warranty (SC/EW) programs.
- Study objectives:
  - Identify best practices involved in marketing and selling SC/
  - Evaluate the impact of these practices on key performance indicators (KPIs).
  - Validate which strategies and tactics offer the best results
- A total of 96 service executives and warranty professionals participated in the study.

# Respondent Demographics

- Over two-thirds (68%) of the respondents were from companies who serve the B2B marketplace while the remaining one-third were from B2C.
- Companies from the B2B market support a broad range of products.
- The most frequently mentioned products include Construction Equipment (35.3%) , Material Handling Equipment (17.7%) and Information Technology (17.7%).
- Nearly 2/3rds of B2C companies support Consumer Electronics and Appliances; 1/3<sup>rd</sup> support automotive.
- Approximately three quarters (76%) of respondents surveyed were from OEM organizations; the remaining 24% were from either authorized channel partners or independent retailers/service providers

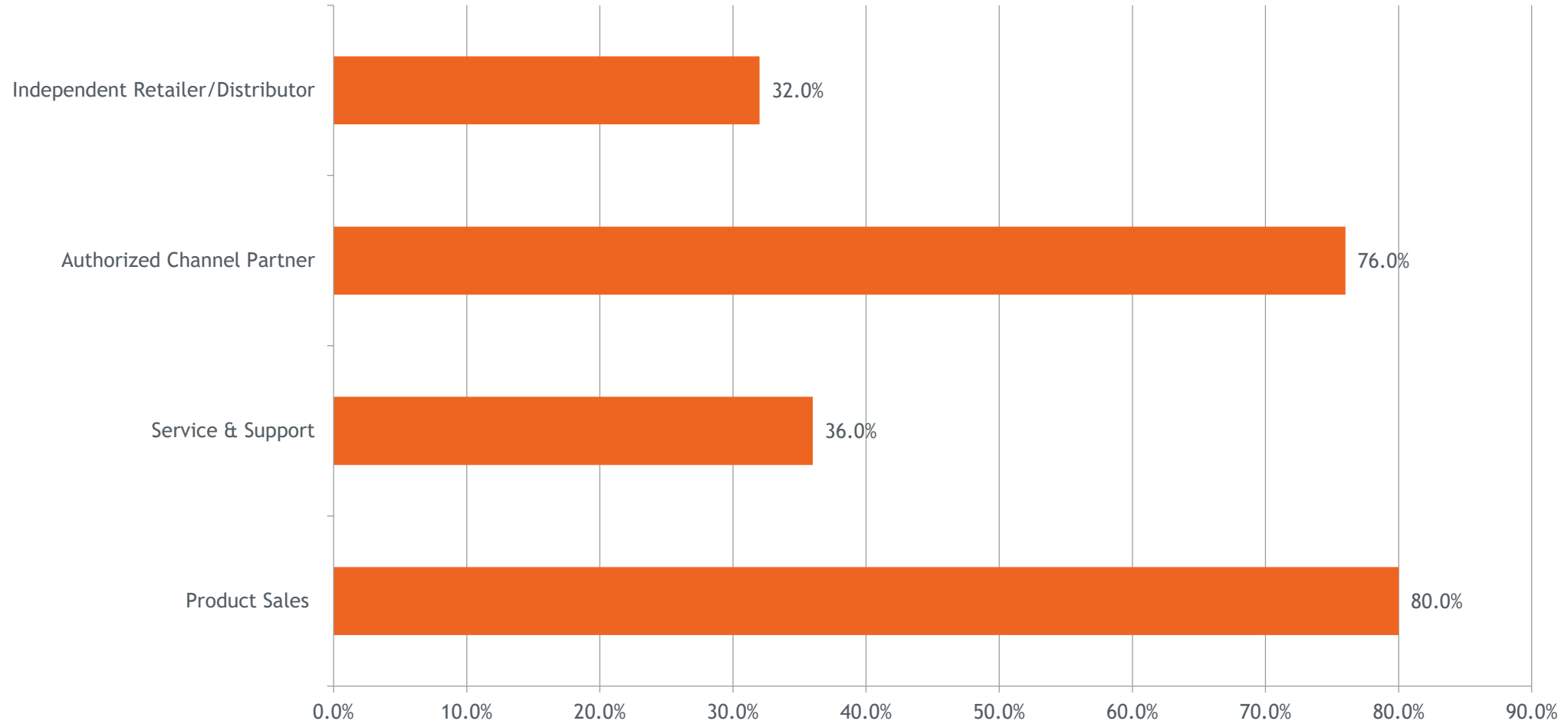
## Target Customer Segment



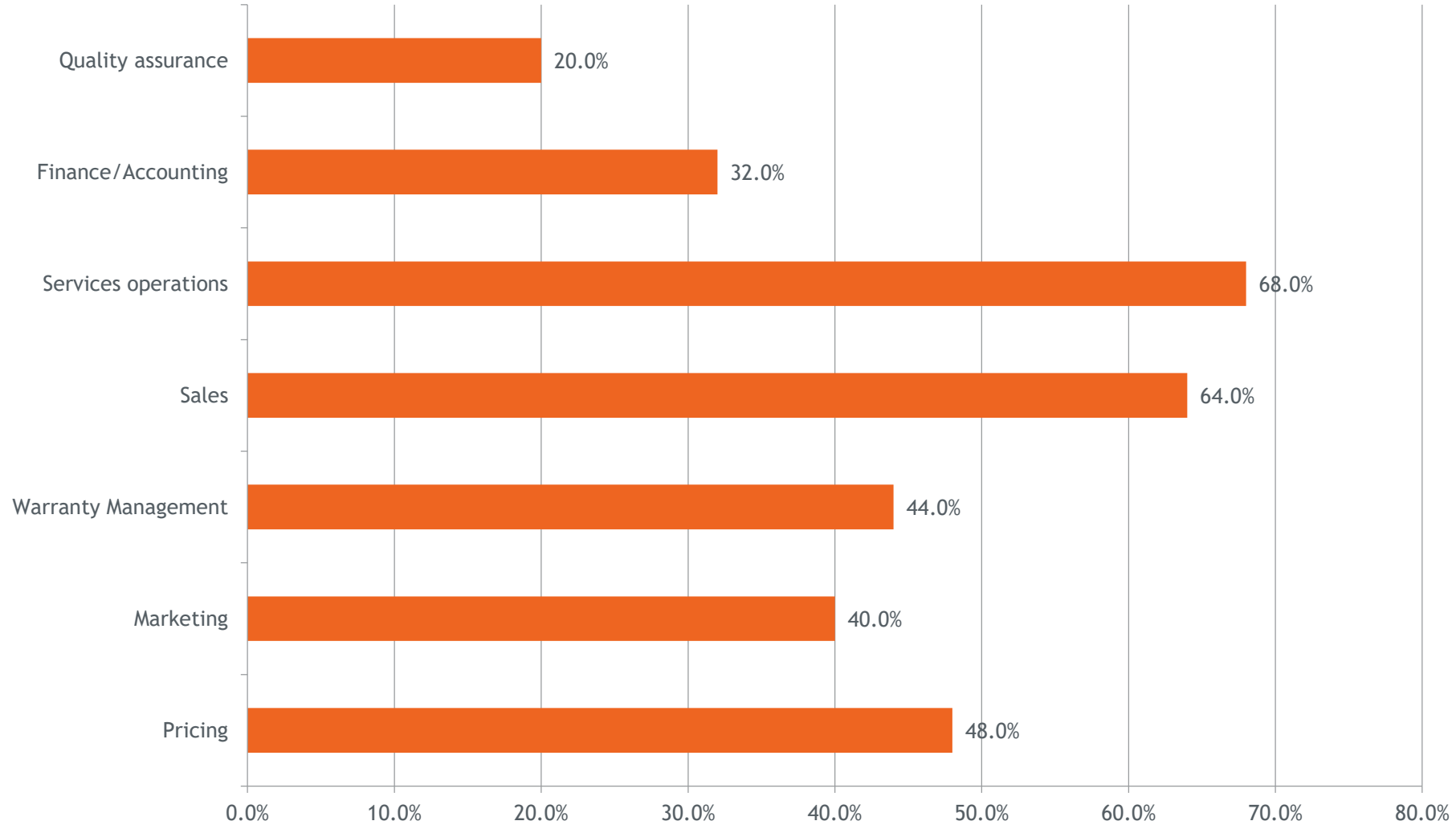
# Go To Market Approach

- The majority of respondents sell service contracts & extended warranty programs (SC/EW) through authorized channels partner (76%) and/or their own product sales organization(80%)
- Approximately one third, sell these programs through their Service & Support organization (36%) and/or Independent Retailers/Distributors (32%).
- A wide array of functions are engaged in developing the configuration and pricing of SC/EW programs
- The most frequently mentioned functions are Sales (68%) and Service (64%) operations followed by Pricing(48%), Warranty Management (44%) and Marketing (40%)
- Less than one-third of respondents indicate that Quality (20%) and Finance (32%) are involved in developing the configuration and price

## Organization that sells your SC/EW directly to end-users



## Function engaged in the configuration and pricing of an SC/EW

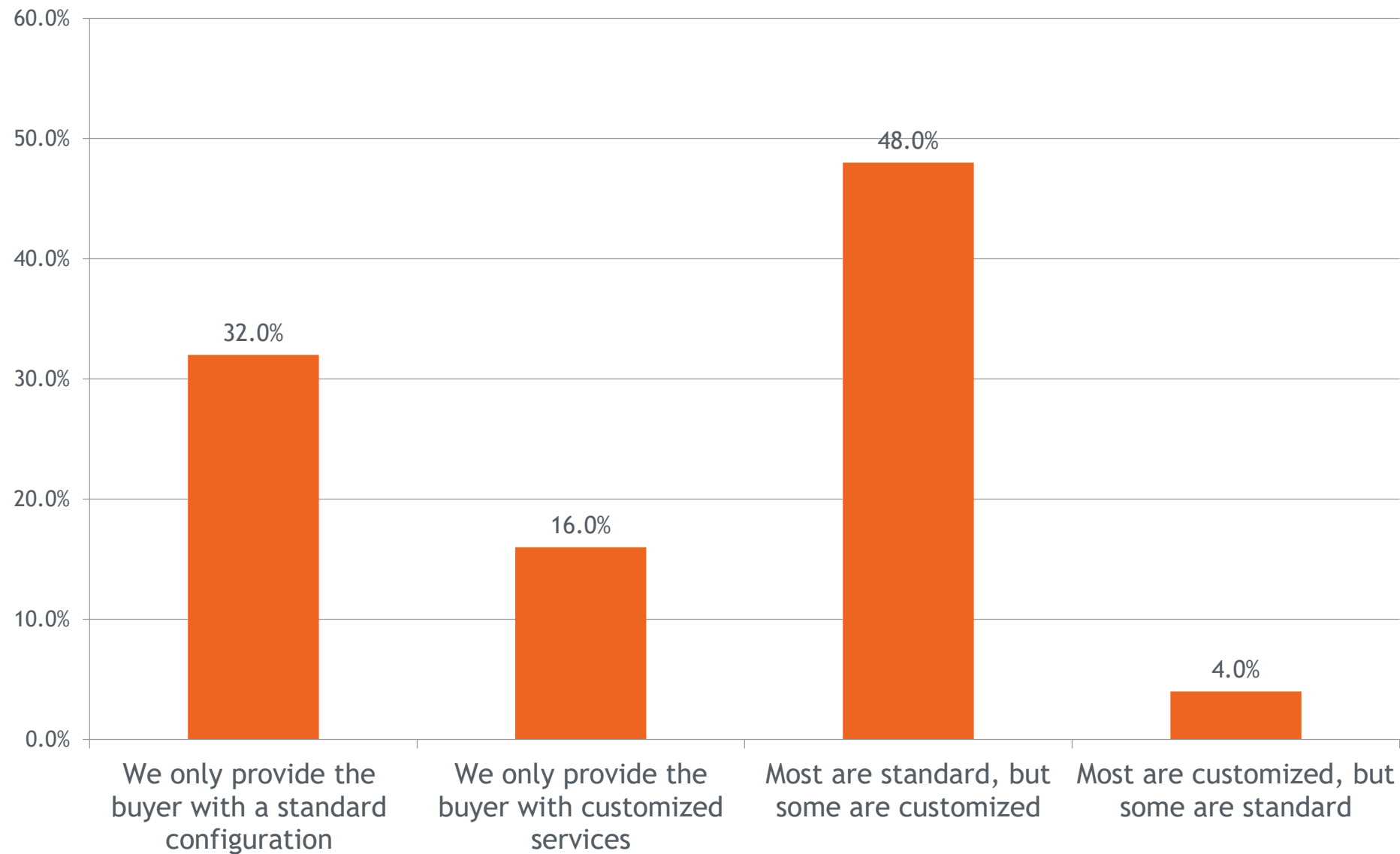




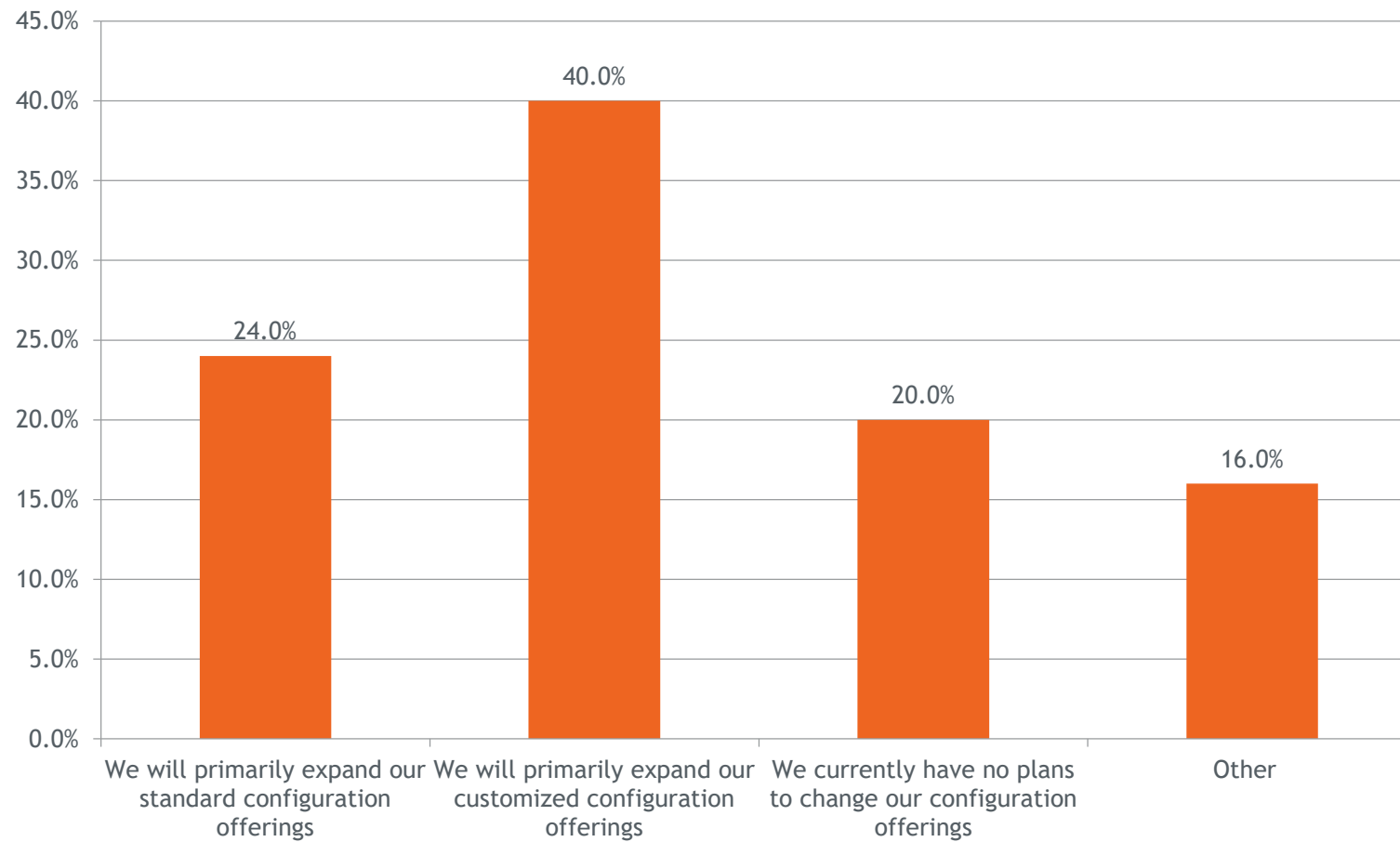
# SC/EW Configuration

- Approximately two-thirds (68%) of the respondents offer some level of customization when it comes to contract configuration. The remaining one-third (32%) offer only standardized configuration
- A plurality of respondents indicate they plan to expand customized configuration offers in the future
- A higher percentage of respondents from the B2C segment reported standardized configuration then compared to B2B who skewed toward customized configurations
- Over 80% of respondents have a typical contract duration of 3 years or less. Nearly half (48%) have duration period of 2-3 years
- Longer duration periods were reported among respondents from the B2C sector
- Over three quarters (76%) indicate that their SC/EW programs cover the entire product's Bill of Materials (BOM) while 24% cover selective sub-systems within the BOM

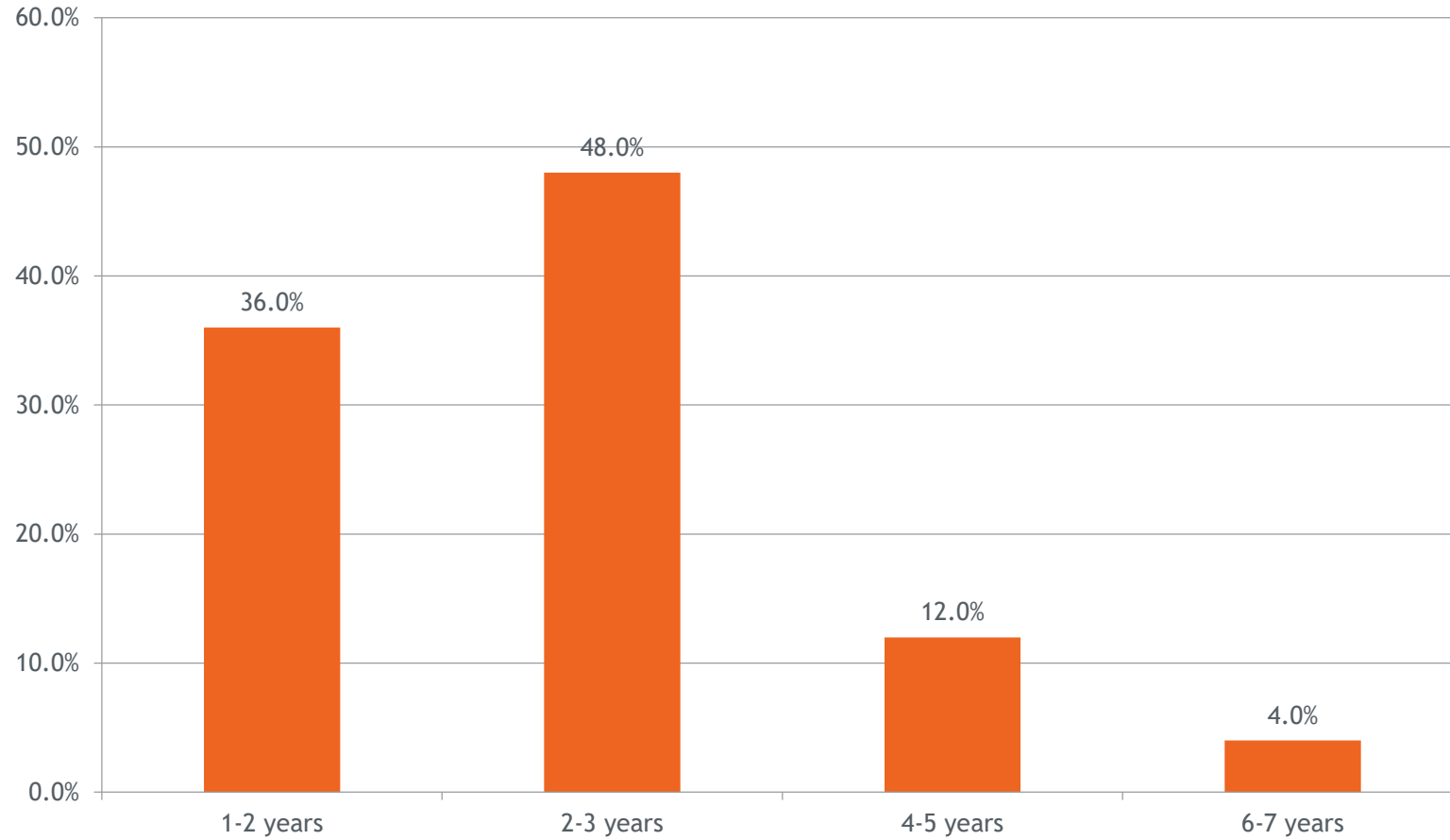
## Standardization VS Customization



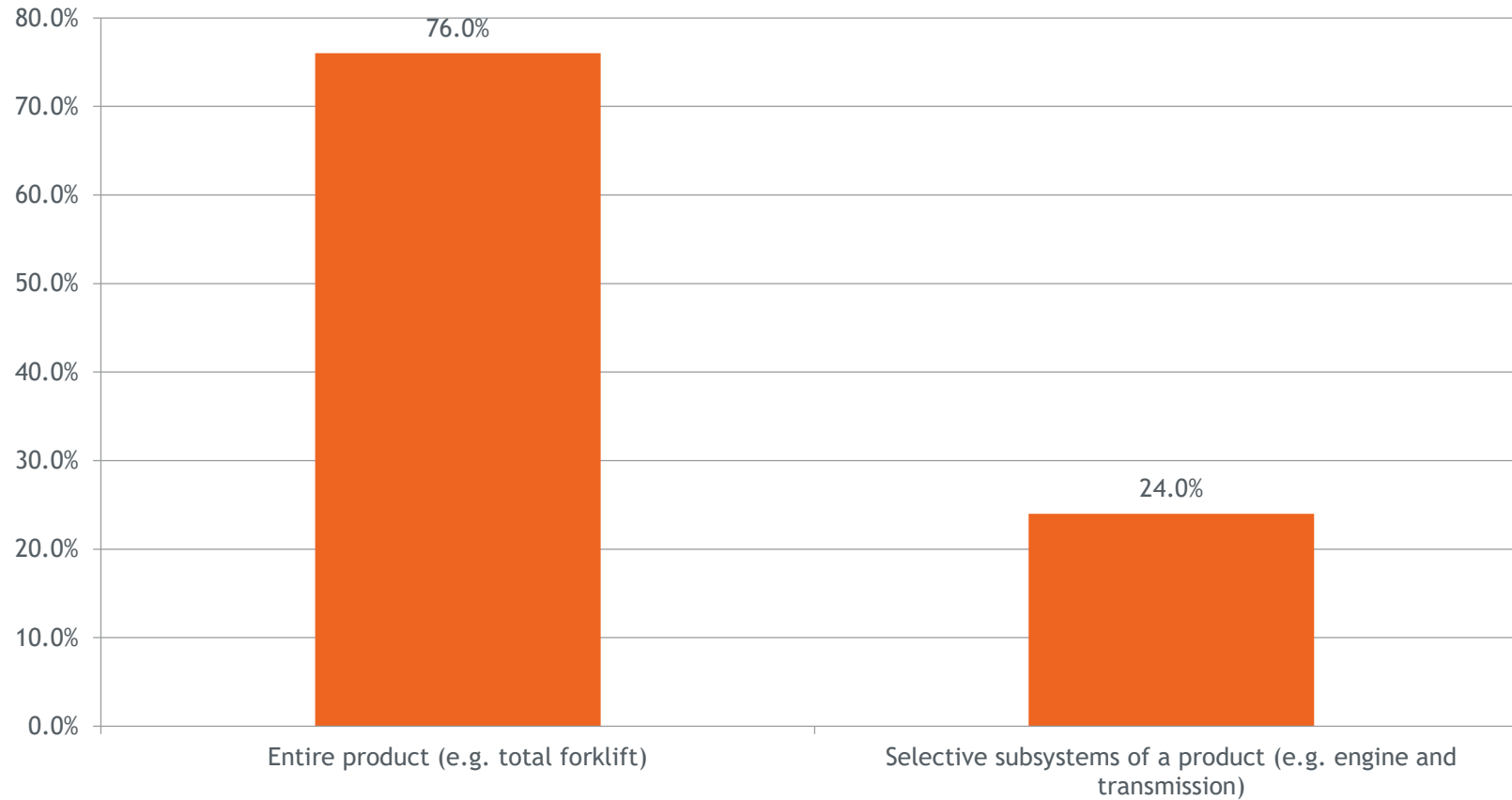
## Future Plans SC/EW Configuration



## Typical Duration of SC/EW



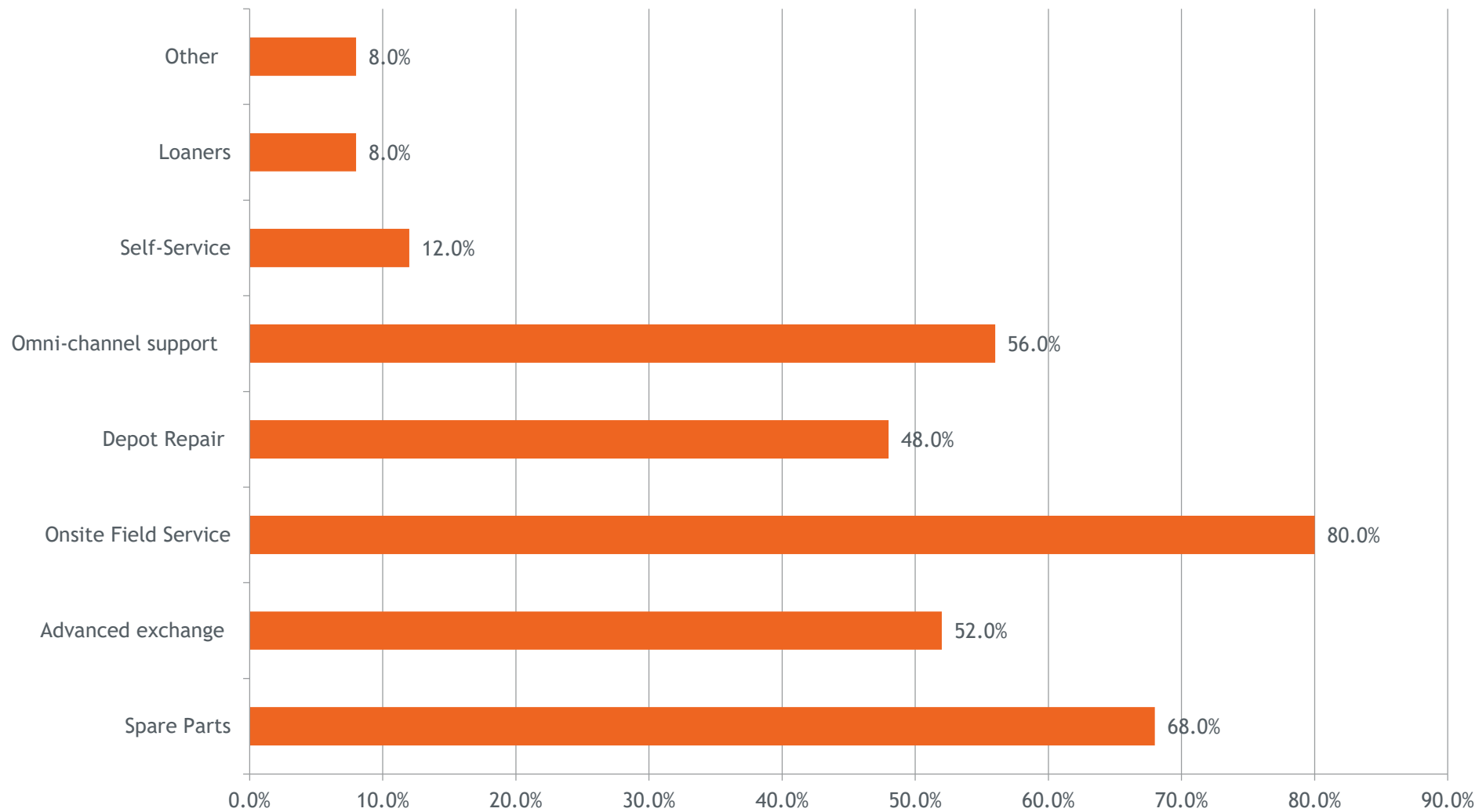
## Segment of a Product's Bill Of Material [BOM] Primarily Covered Under SC/EW



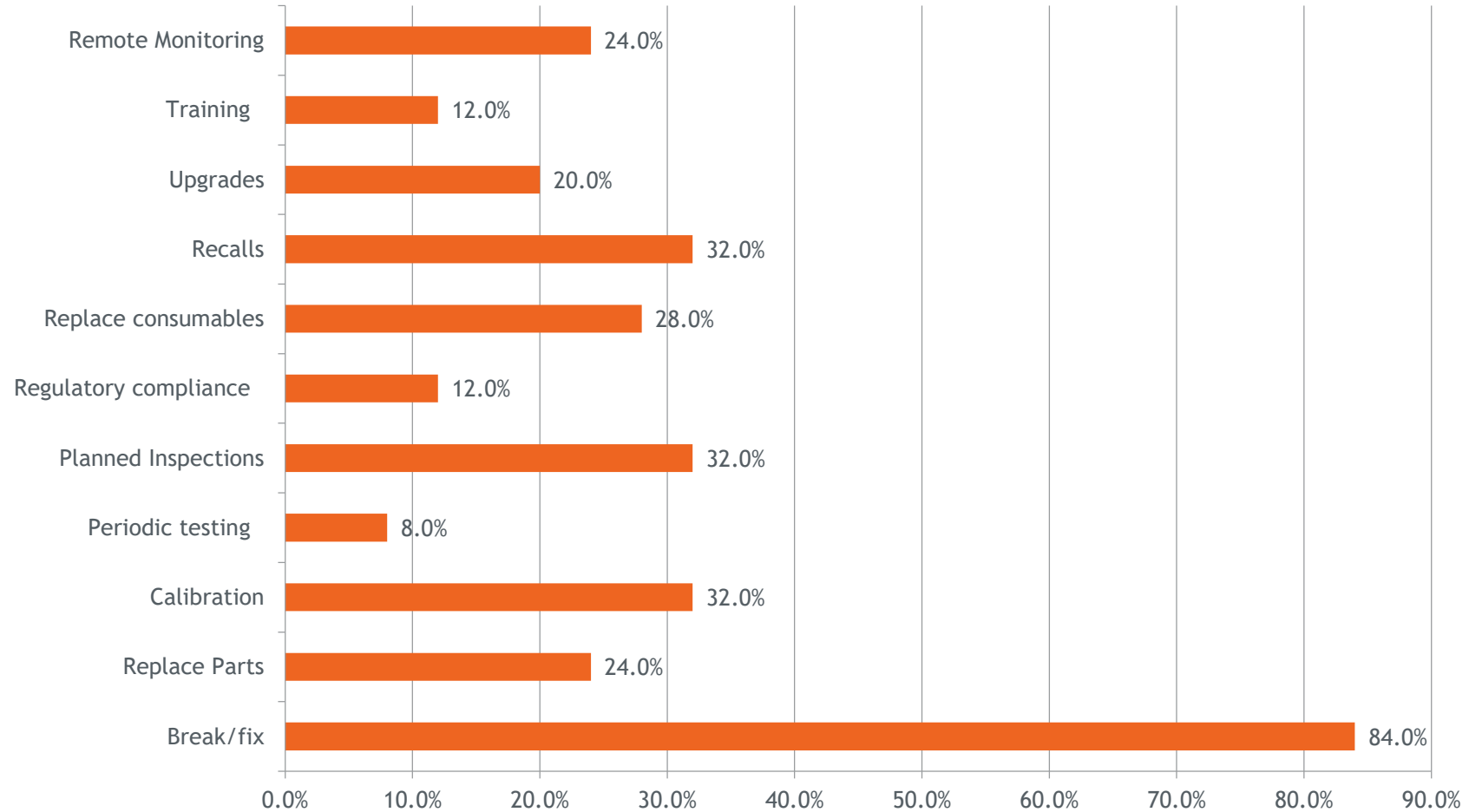
# SC/EW Configuration (Continued)

- Configuration also refers to the processes covered, resources provided, and performance guarantees
- With respect to processes covered, the majority (84%) of respondents include break-fix. Less than one-third include:
  - Planned Inspections, Calibrations, Inspections: 32%
  - Consumable Replacement: 28%
  - Remote Monitoring, Parts Replacement: 24%
- The most frequently mentioned resources provided to support these processes include
  - Onsite Field Service: 80%
  - Spare Parts: 68%
  - Omni-Channel Support: 56%
  - Advanced Exchange: 52%
- The inclusion of performance guarantees or entitlements is less pervasive. Only 52% include Guaranteed Onsite Response Time as part of the configuration while 44% provide Guaranteed Parts Delivery Time

## Resources Provided To Support Processes Covered

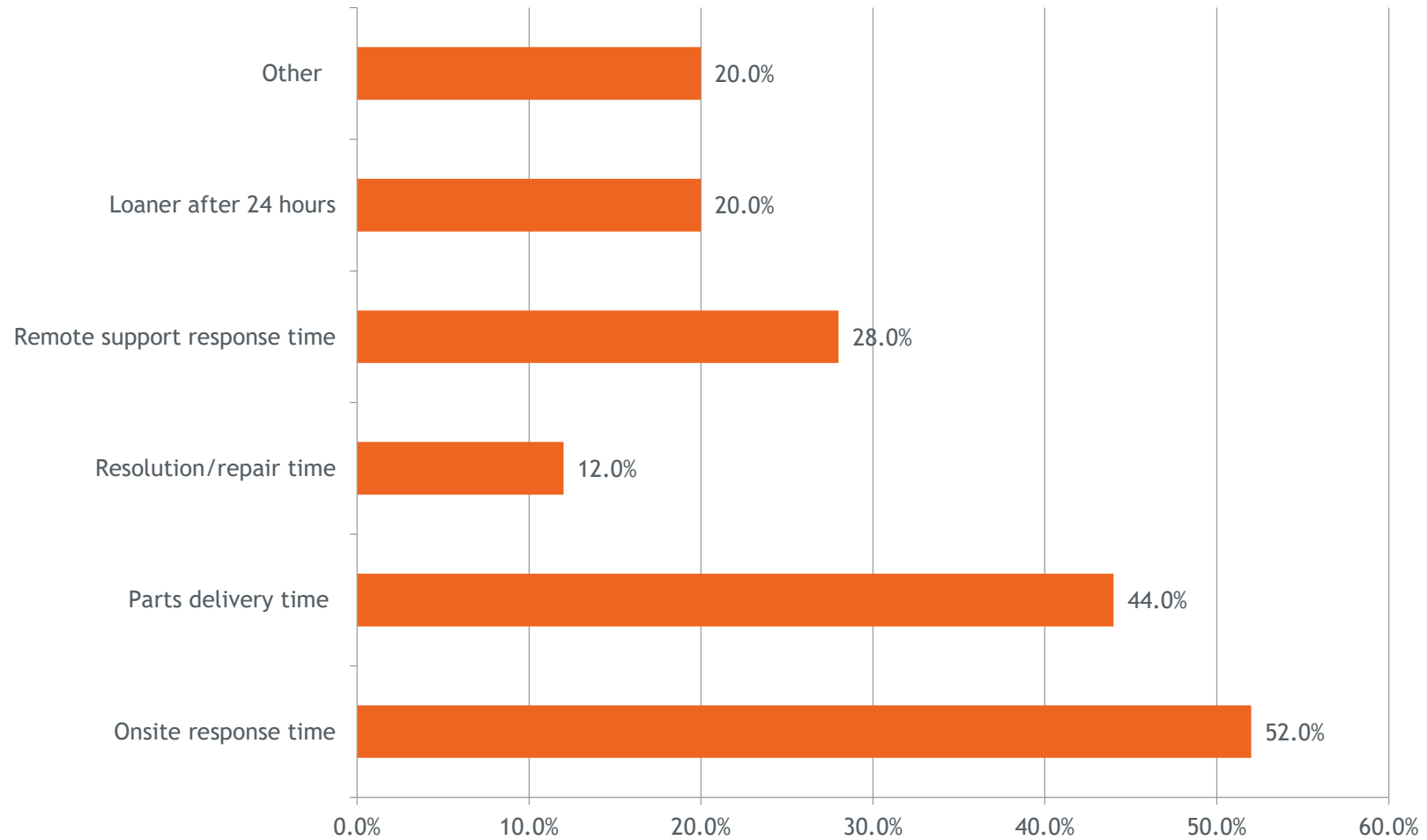


## Processes Covered Under SC/EW





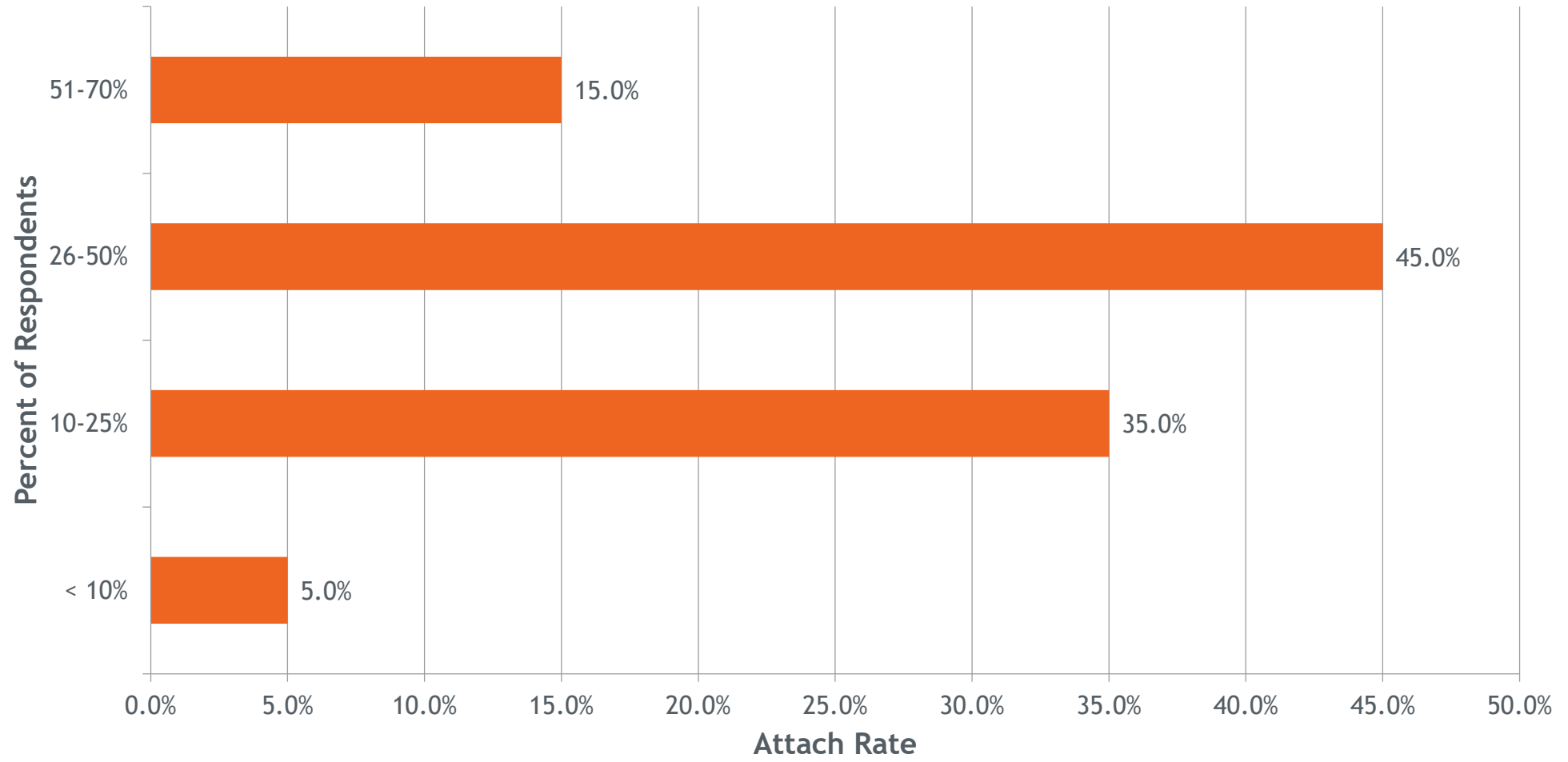
## Level of Performance Guarantee/Entitlements included within Service Contracts & Extended Warranties



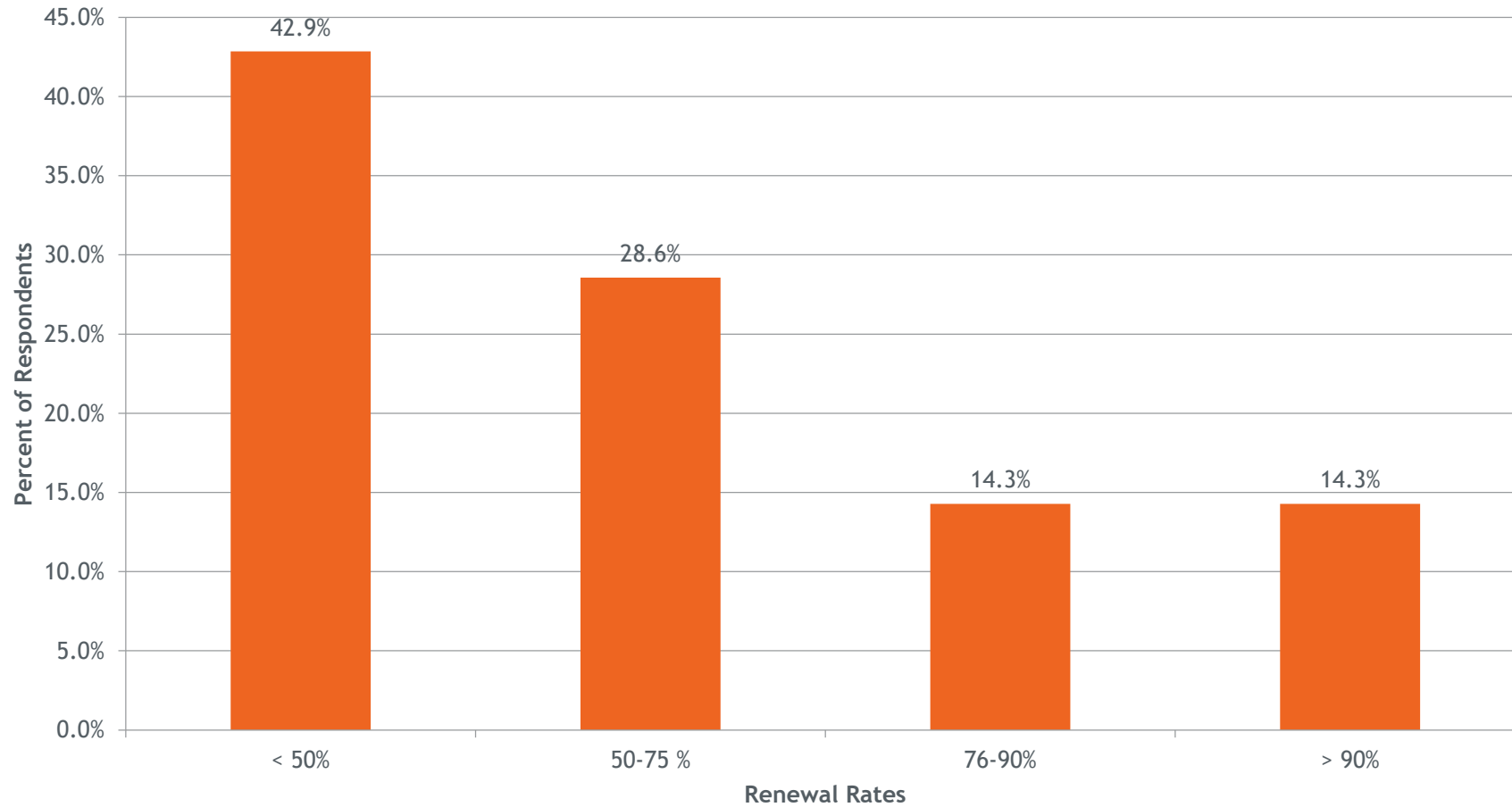
# Attach & Renewal Rates

- A majority of respondents report attach rates of 50% or less.
  - 45% of respondents report attach rates in the range of 26% -50%
  - 15% report attach rates in the range of 51% to 70%
  - Higher attach rates cited among respondents in the B2B Segment
- Over one-quarter (28.6%) of respondents report renewal rates over 76%
  - 14.3% report renewal rates of 90% or higher
  - Higher Renewal rates are cited among respondents in the B2B Segment

### Attach Rate for Selling Service Contract and/or Extended Warranties



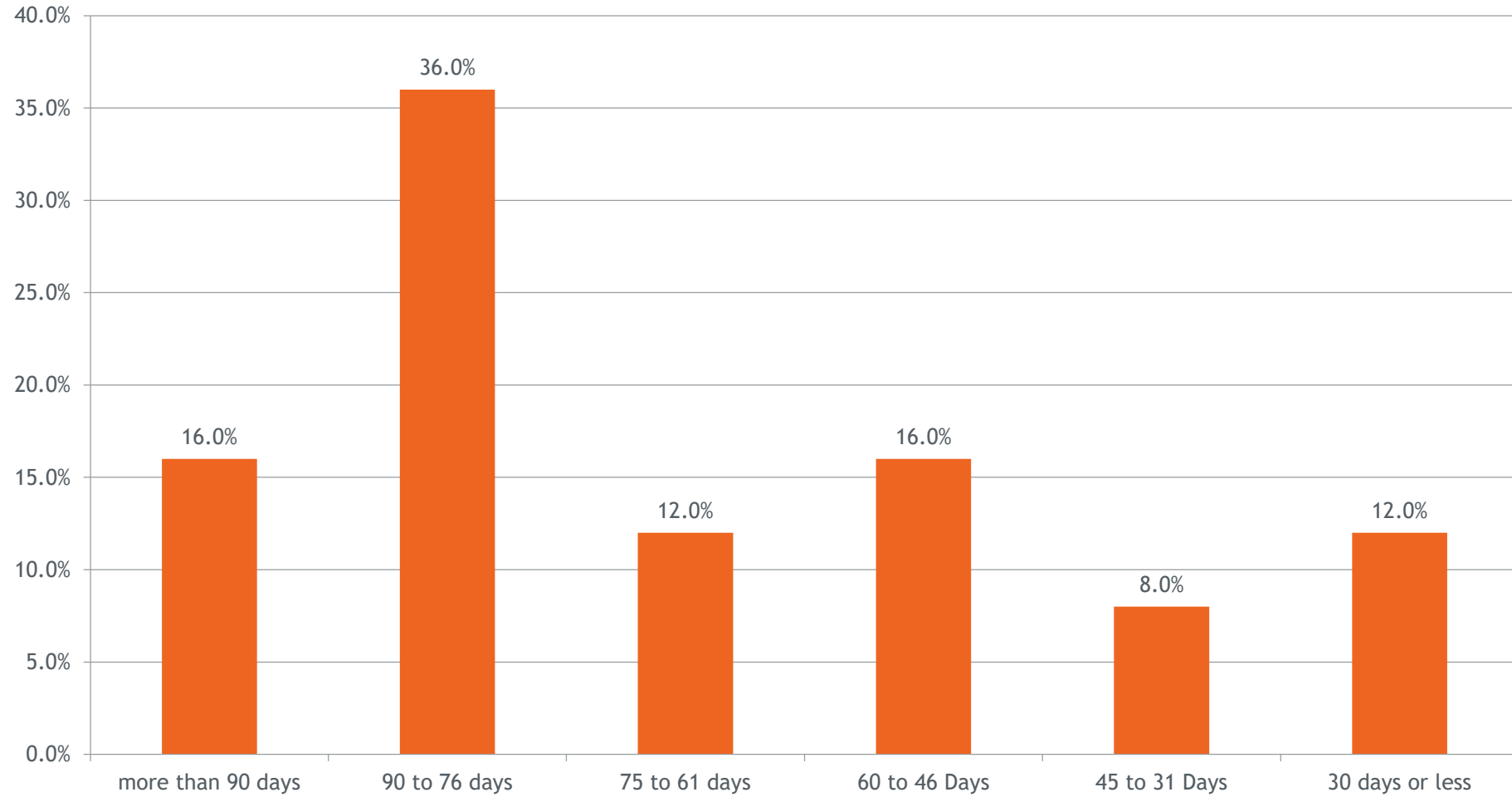
## Service Contract/Extended Warranty (SC/EW) Renewal Rates



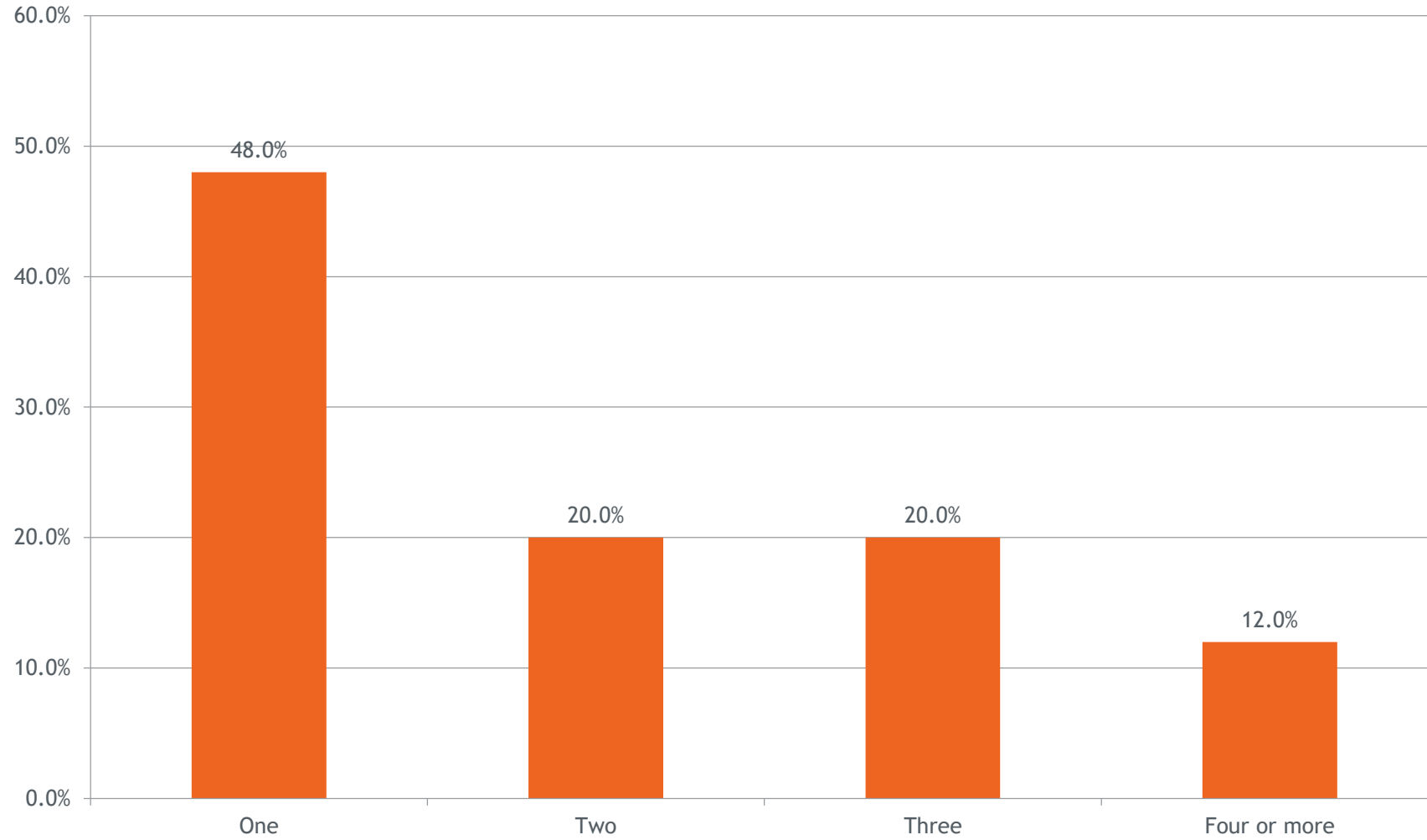
# Advanced Notification

- Respondents typically notify customers that their SC/EW programs are up for renewal.
- 50% of the respondents indicate they provide more than 75 day advanced notification; 16% provide 90 days or more notification.
- Higher renewal rates observed among companies that provide 90 to 76 days advanced notification.
- Two-thirds (68%) of respondents provide only 1-2 advanced notifications. The remaining 32% provide 3 or more notifications
- Higher Renewal Rates are observed among respondent who provide 3 or more notifications

## Advanced Notification that SC/EW is up for Renewal



## Number of Advanced Notifications Provided

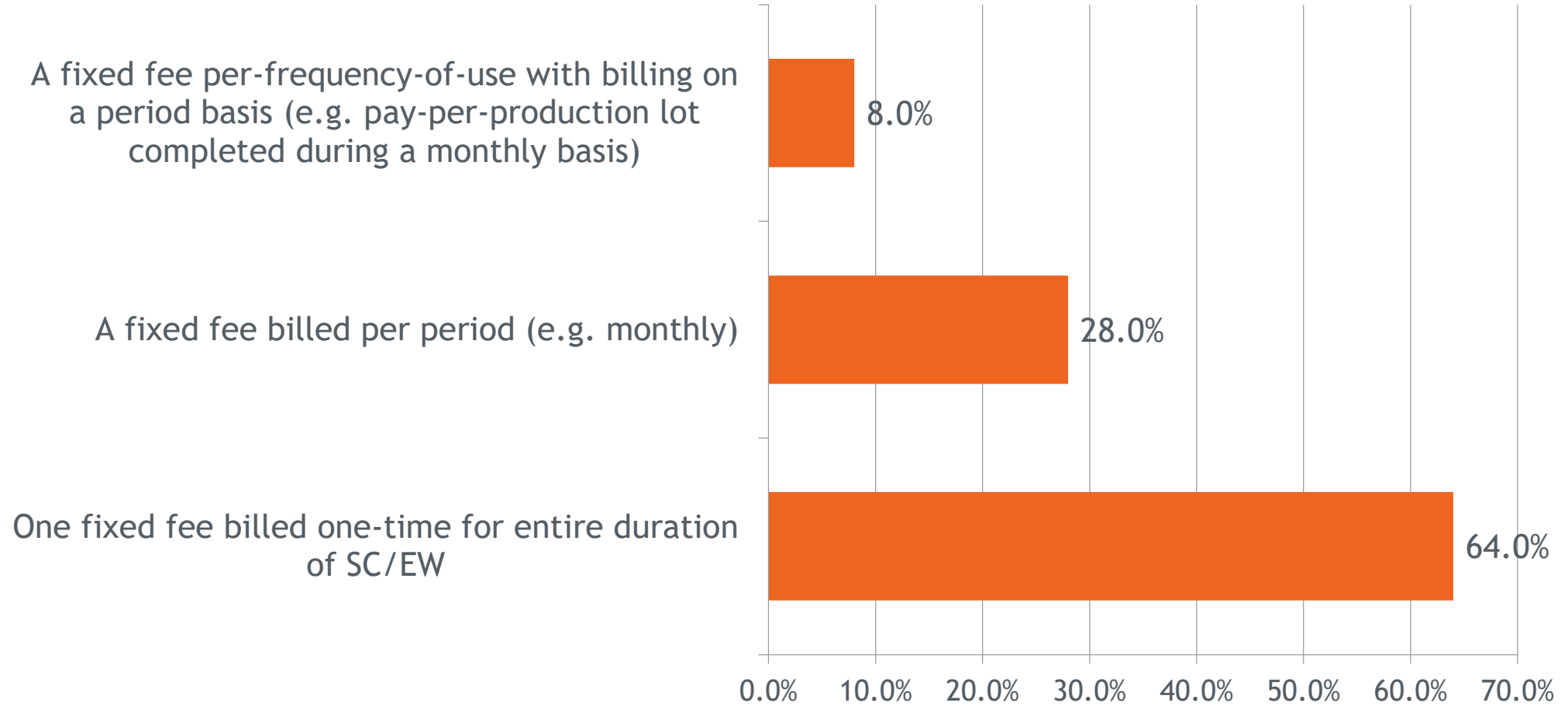


# Flexibility of Terms

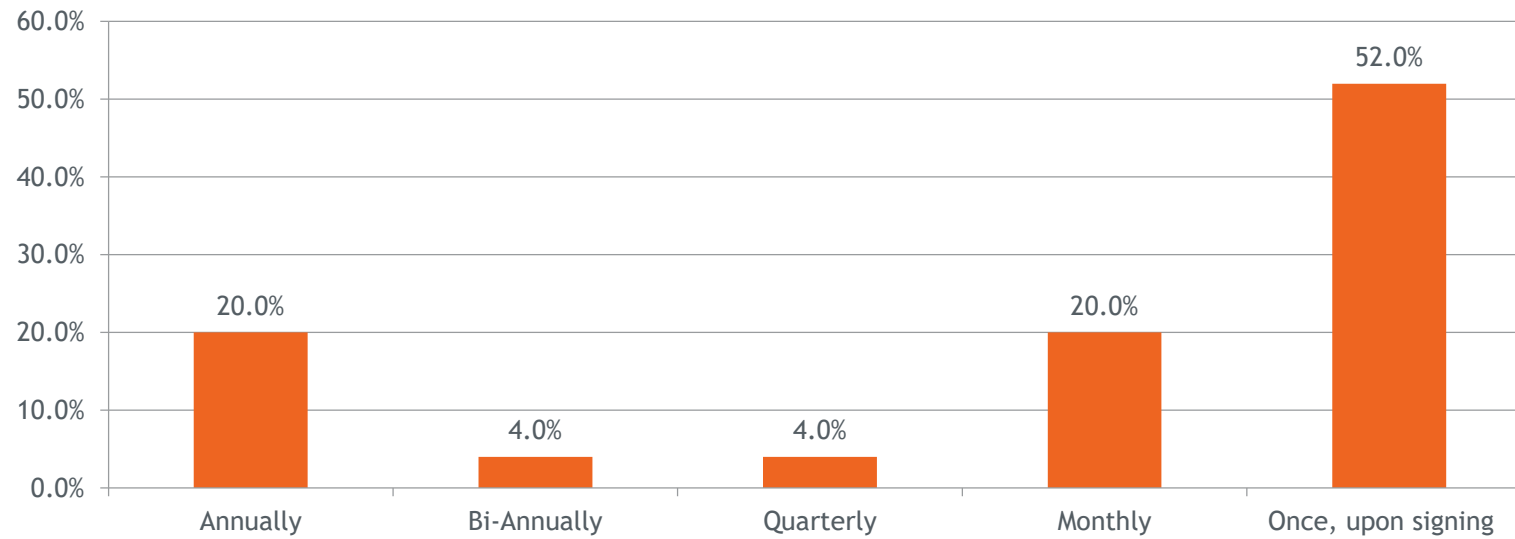
- The majority (64%) of respondents structure their SC/EW on the basis of one fixed fee billed for the entire duration of the program; 28% have a fixed fee per bill period
  - Higher Attach and Renewal Rates are associated with fix fee per bill period
  - B2C Segment typically bills one time for entire duration
- Approximately, one-half (52%) of the respondents invoice once upon signing. One in Five respondents invoice annually (20%) or monthly (20%).
- Half of the respondents provide customers with the ability to terminate SC/EW programs, either with penalties or without, once they have purchased them.
  - Higher attach rates and renewal rates are associated companies provide ability to terminate with penalties
  - B2C more likely than B2B to offer ability to terminate early with no penalties



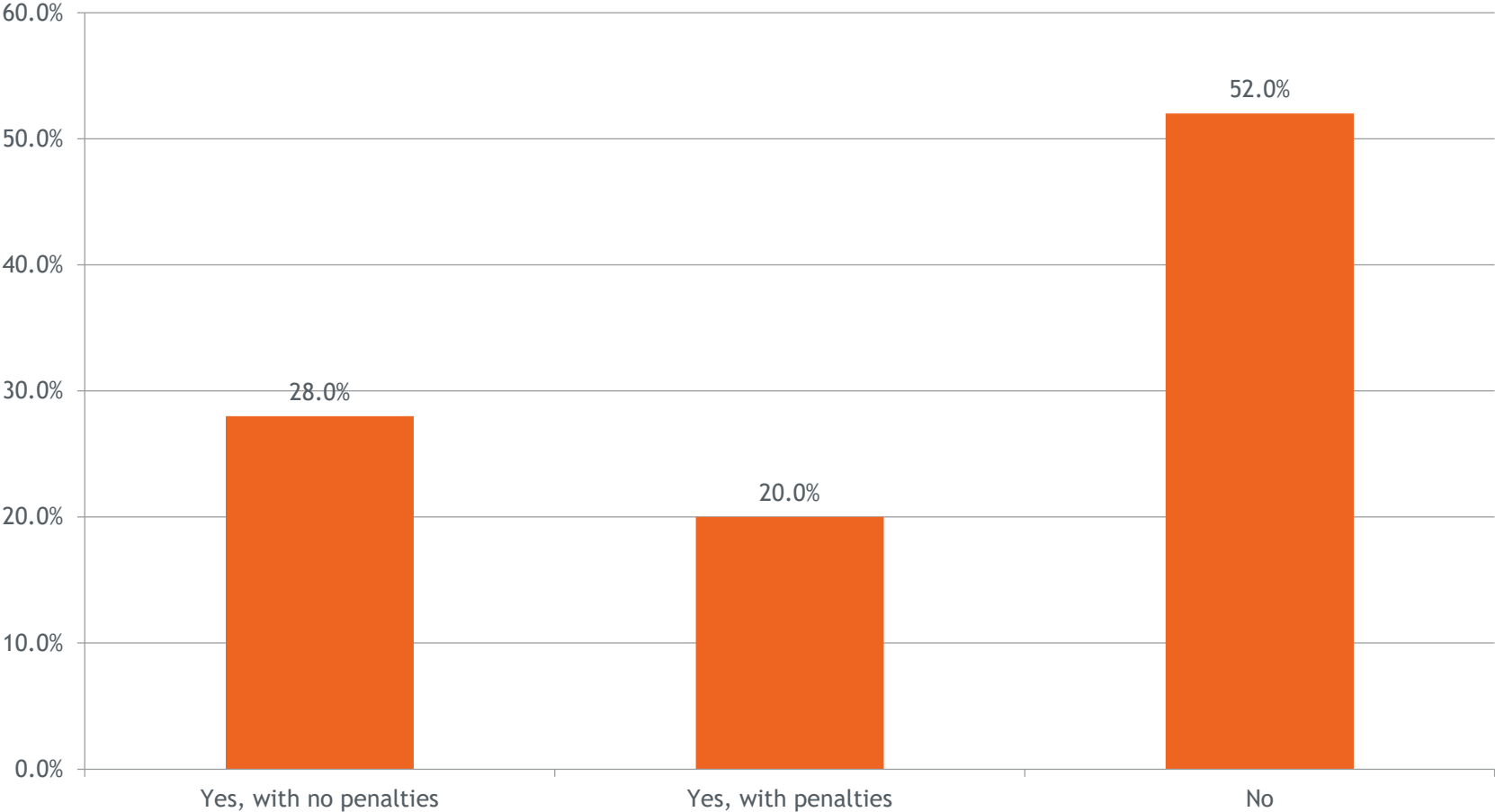
## Primary Fee and Billing Schedule



## Invoice Frequency for SC/EW



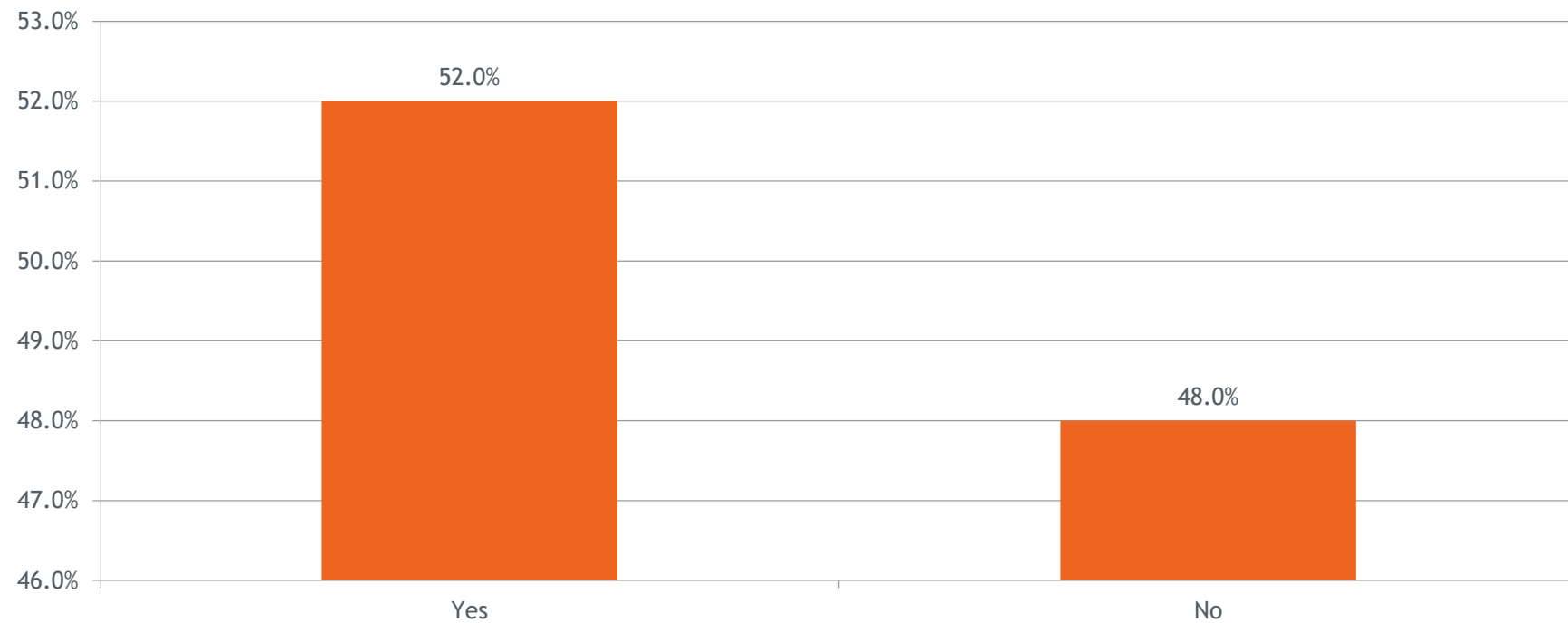
### Ability to terminate SC/EW once they have been purchased



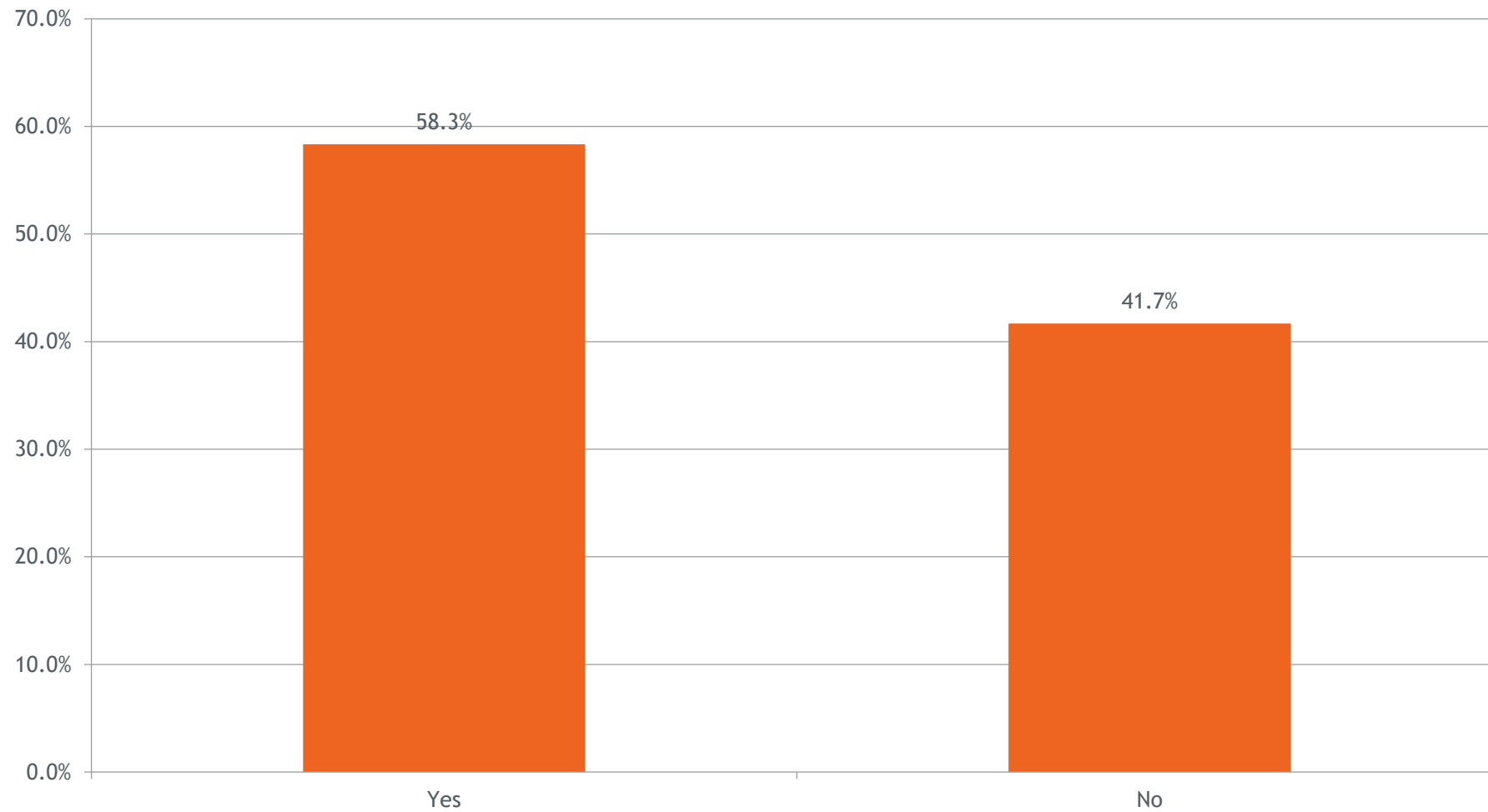
# Flexibility of Terms (Continued)

- Approximately half of the respondents surveyed provide their customers the ability to negotiate the price of SC/EW programs, and extend the length of these programs
- Higher attach and renewal rates among companies who provide customers with the ability to negotiate price
- This practice is more common within the B2B Segment

## Provides customers with the ability to negotiate the price of Service Contracts & Extended Warranties



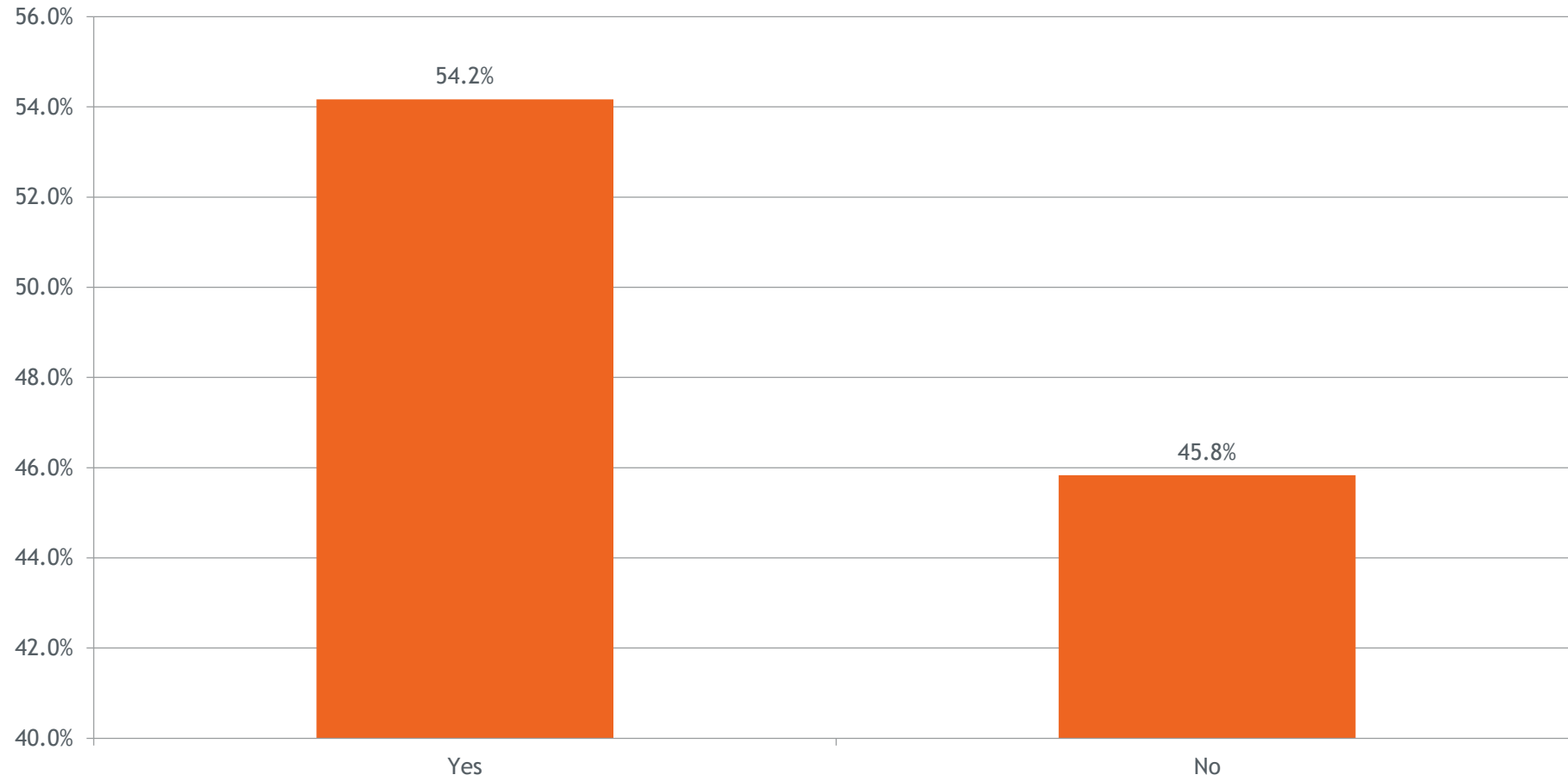
## Ability for Customers to Extend SC/EW Length



# Sales & Marketing

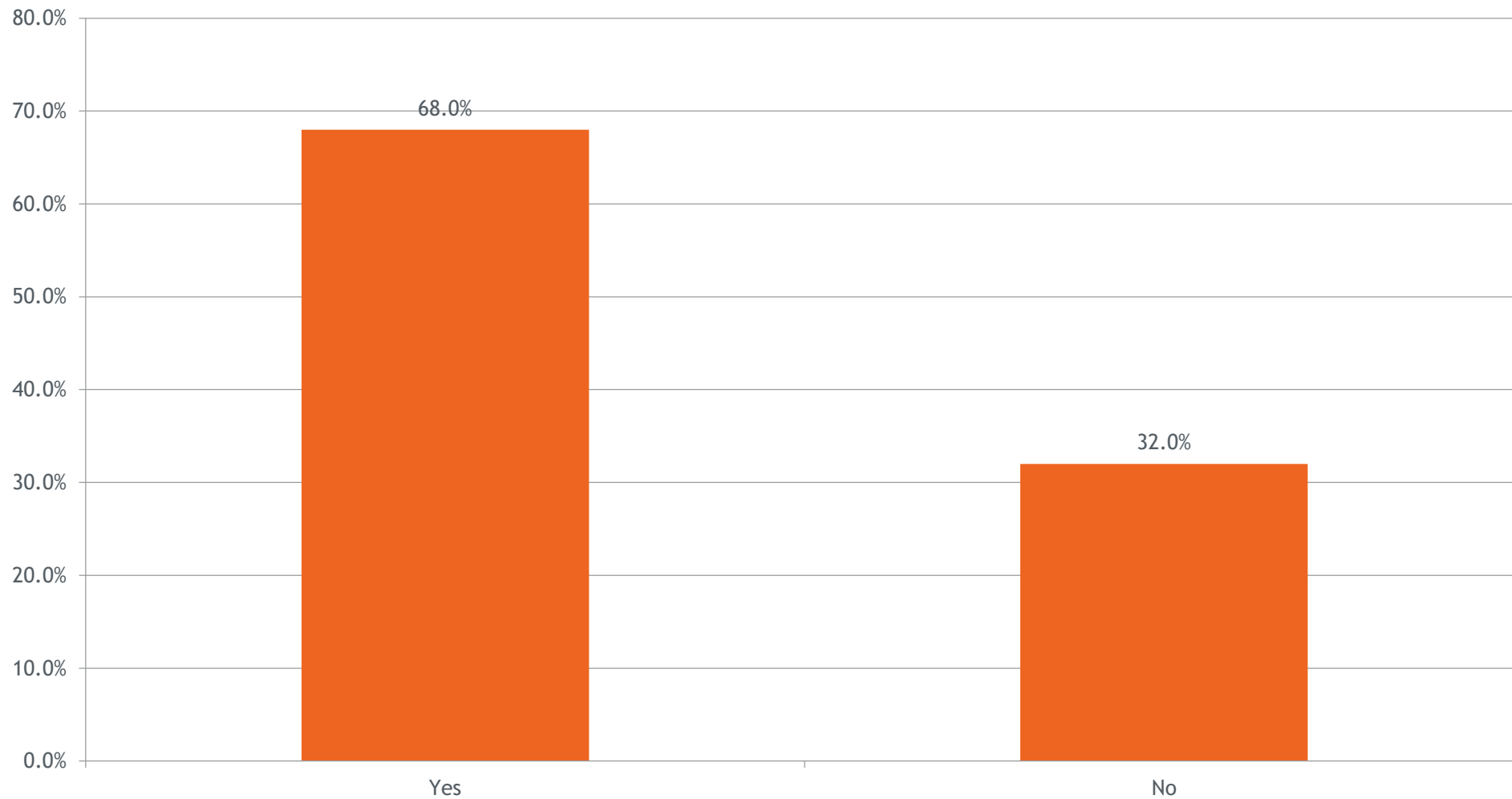
- A majority (54.2%) of respondents involve front line service personnel in the sale of SC/EW contracts.
- Approximately, two-thirds (68%) provide formal sales training while less than half (46.2%) use automation to facilitate the ability front line service personnel to sell SC/EW programs
- Higher attach rates and renewals are cited among respondents that use automation to facilitate sale by front line service personnel
- Most respondents (80%) have a structured process in place to configure, price, and quote (CPQ) program
- Various types of applications are used for CPQ. The most frequently mentioned is spreadsheets.
- One-third (36%) use functionality found within their CRM/ERP or Warranty & Service Contract Management Systems. Only 20% use standalone CPQ applications.

## Use of front line service personnel (e.g., technicians) in the sale or renewal of SC/EW

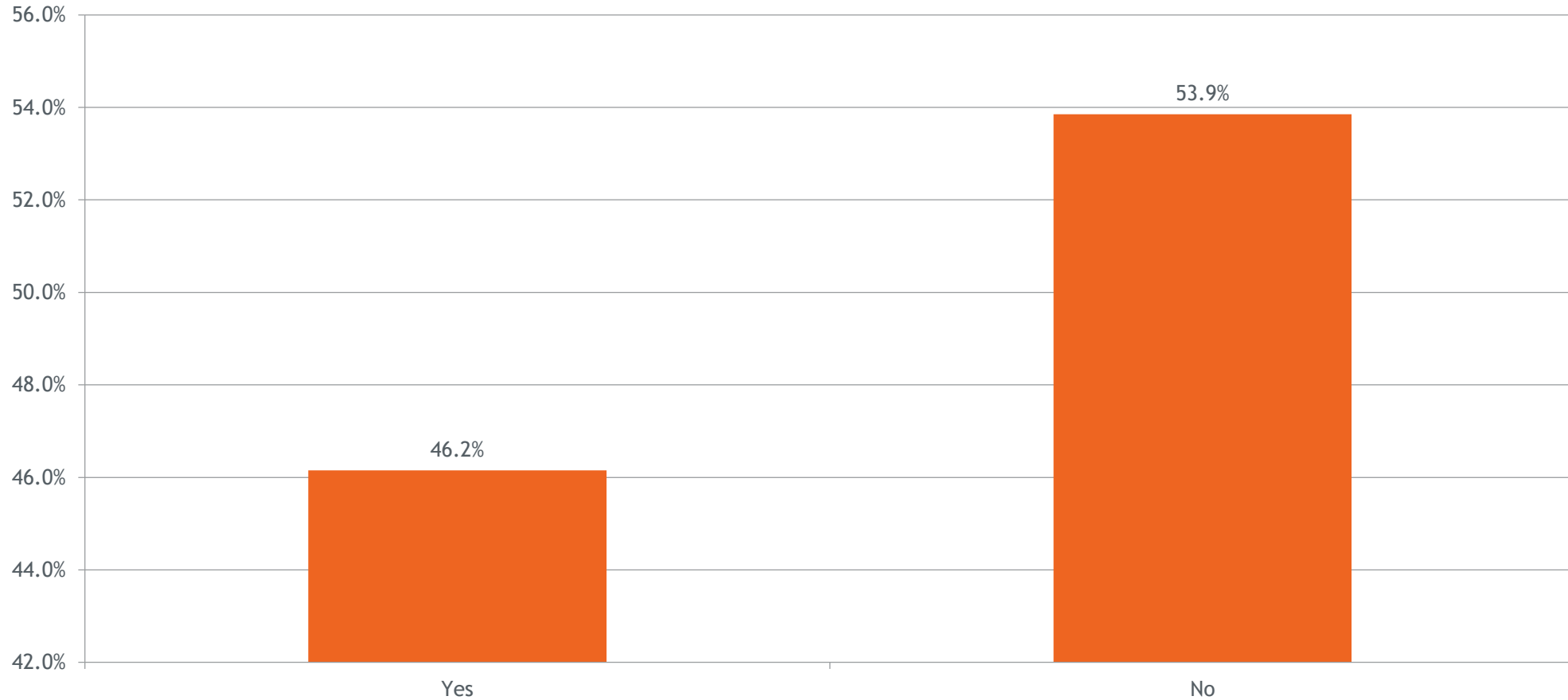




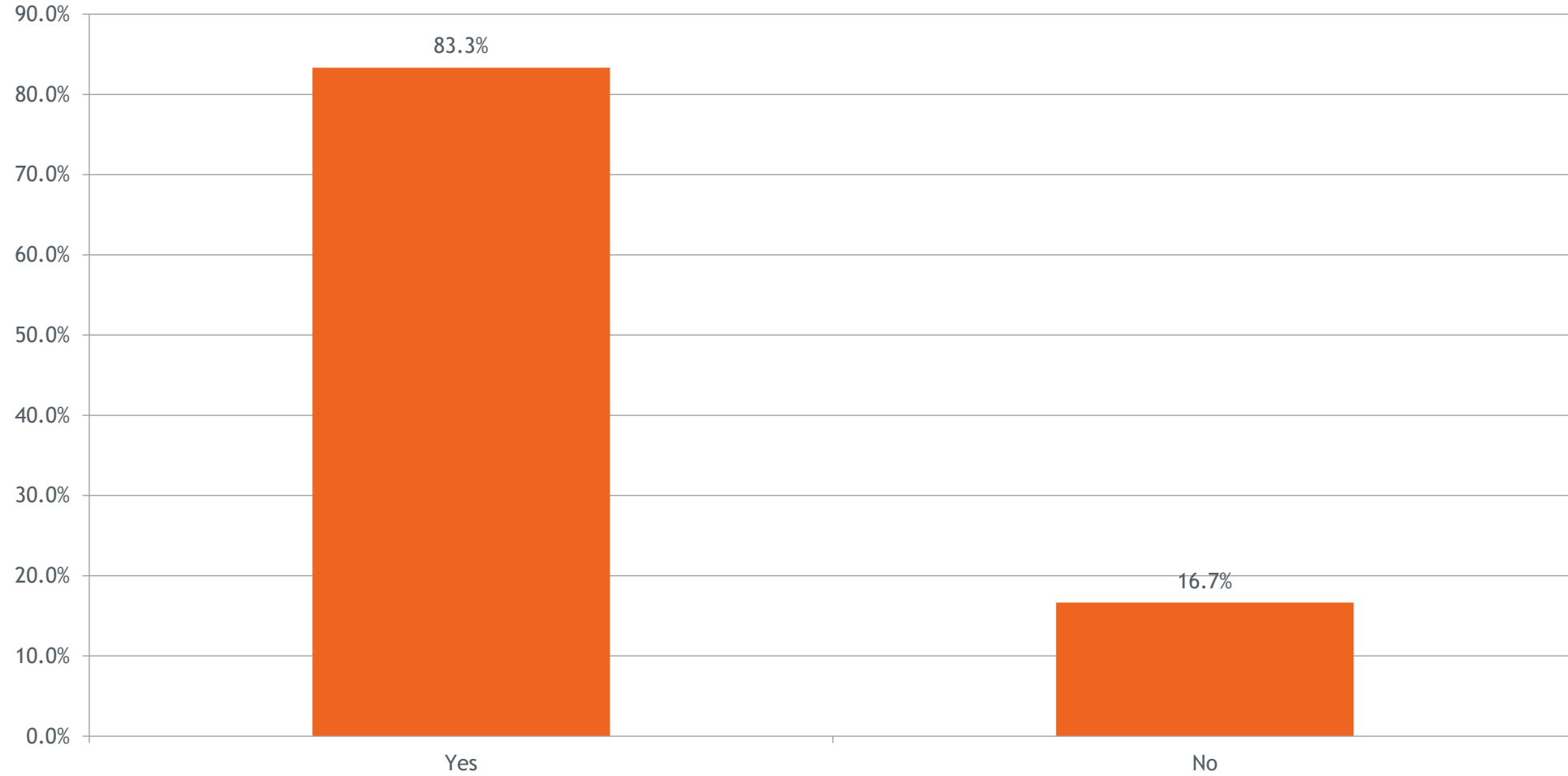
## Provides formal sales training to the people responsible for selling SC/EW



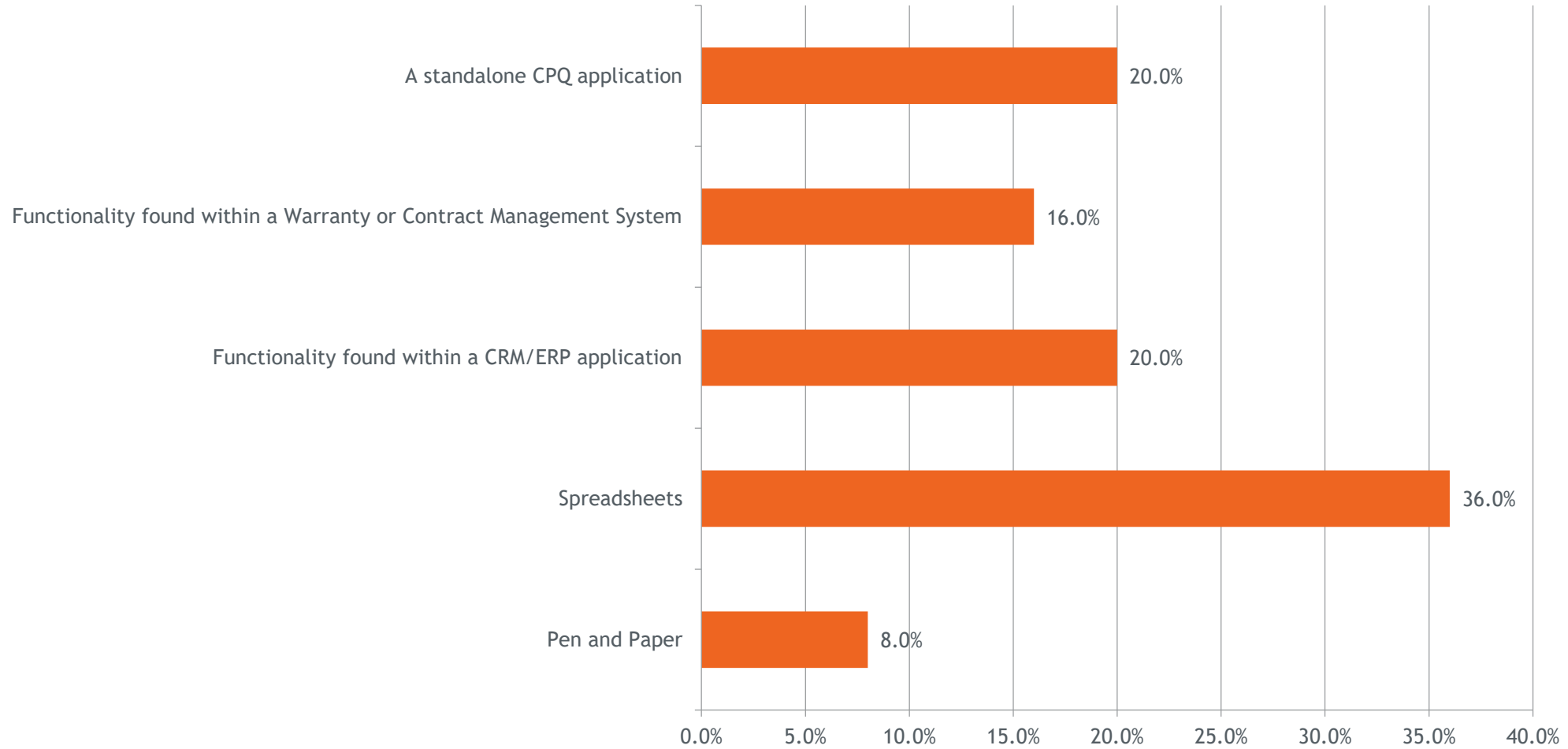
## Use of automation or application to facilitate the sale of SC/EW by front line service personnel



## Structured Process To Configure, Price, and Quote SC/EW



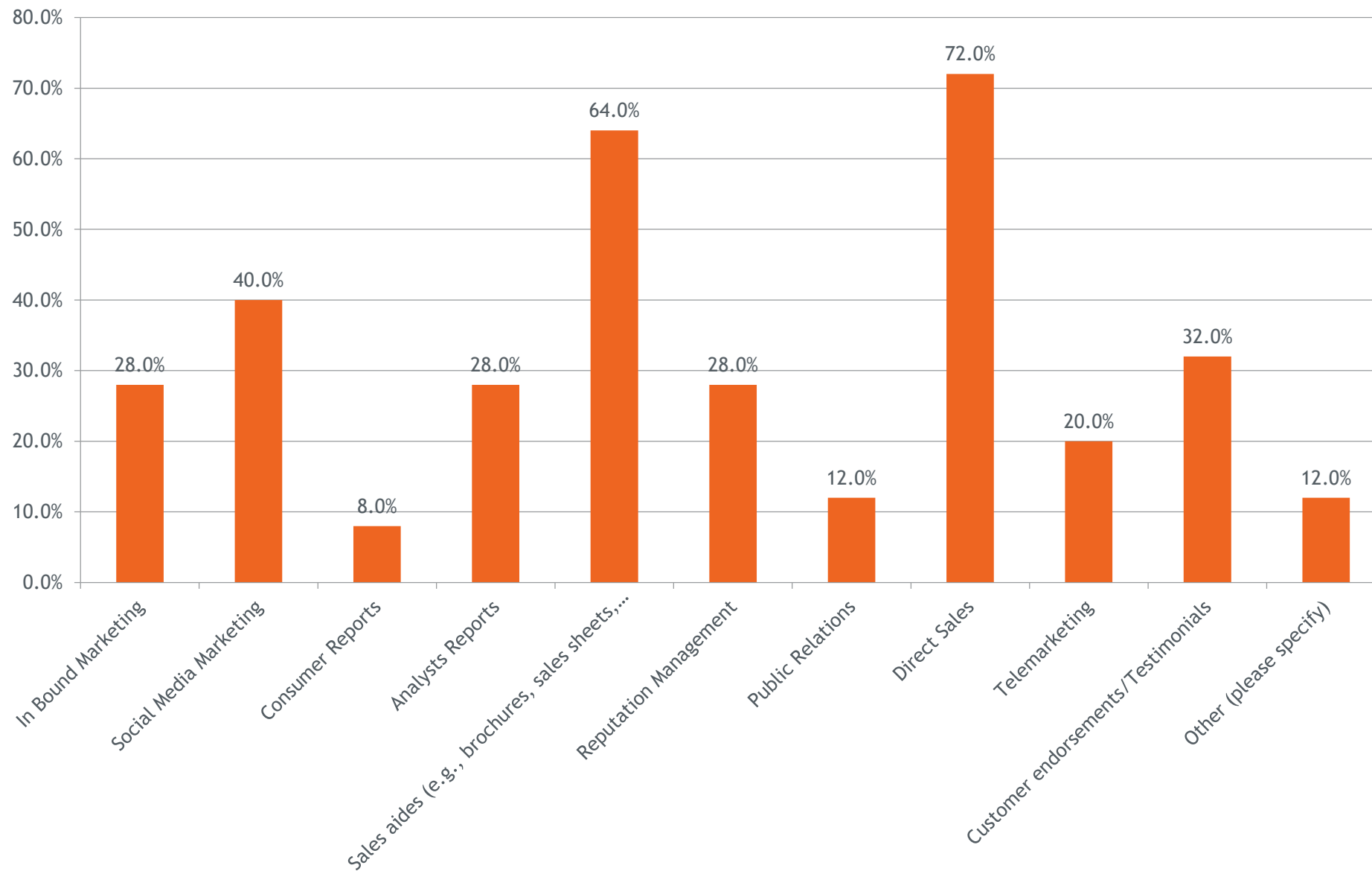
## Application Utilized to Configure, Price, Quote and Sell EW/SC



# Sales & Marketing (Continued)

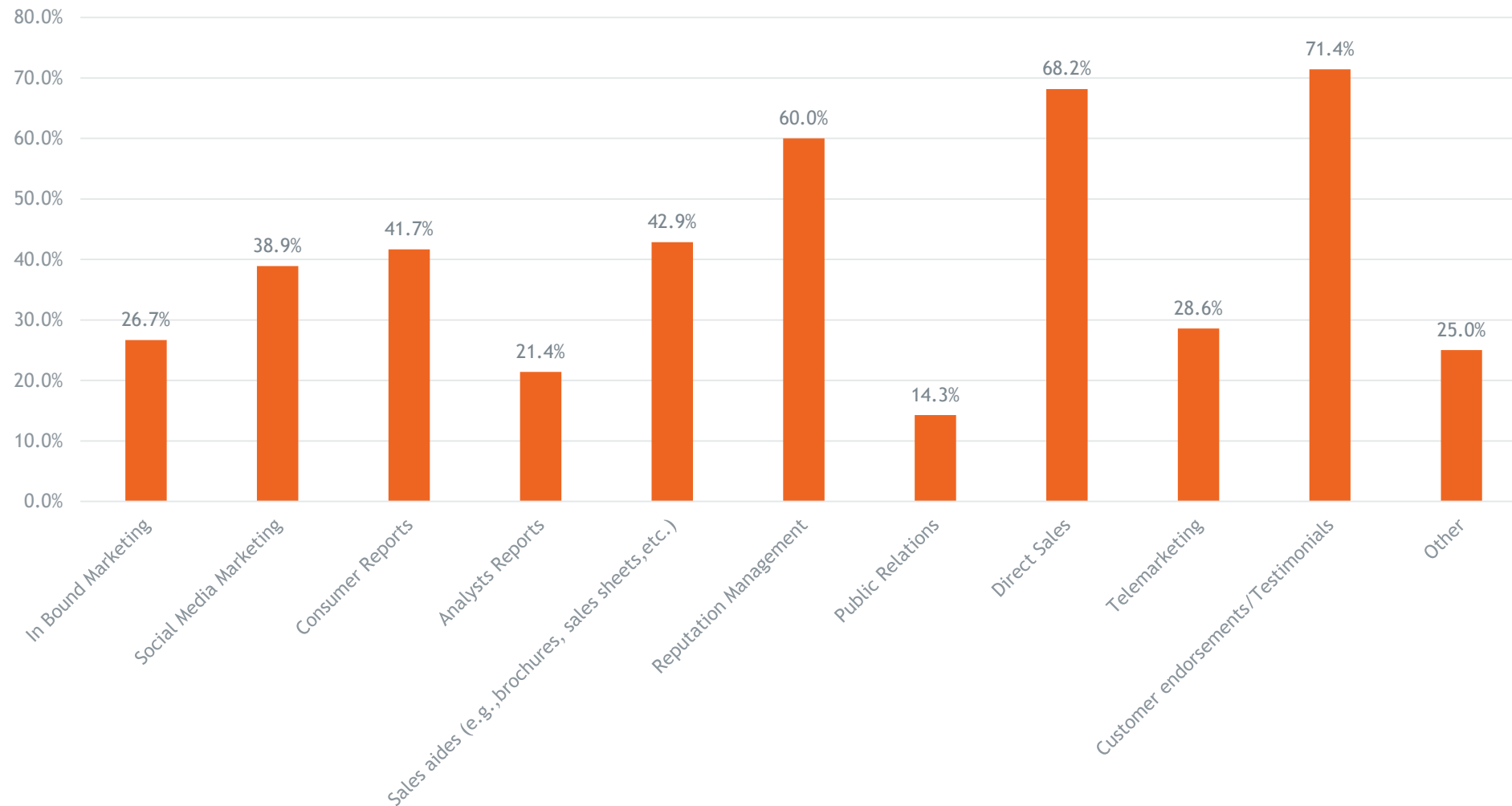
- Respondents indicate that they use a broad array of tactics to influence buying decisions
- The most frequently mentioned tactics are direct sales (72%) and sales aides/brochure (64%)
- Interestingly, respondents indicate the most effective tactics are:
  - Customer endorsements/testimonials (71.4%)
  - Direct Sales (68.2%)
  - Reputation Management (60.0%)

## Tactics utilized to influence buying decisions with regard to SC/EW



## Effectiveness of Sales Tactics

- % of Respondents with Rating of 8 or 9 -  
(1 = Not all Effective and 9 = Extremely Effective)

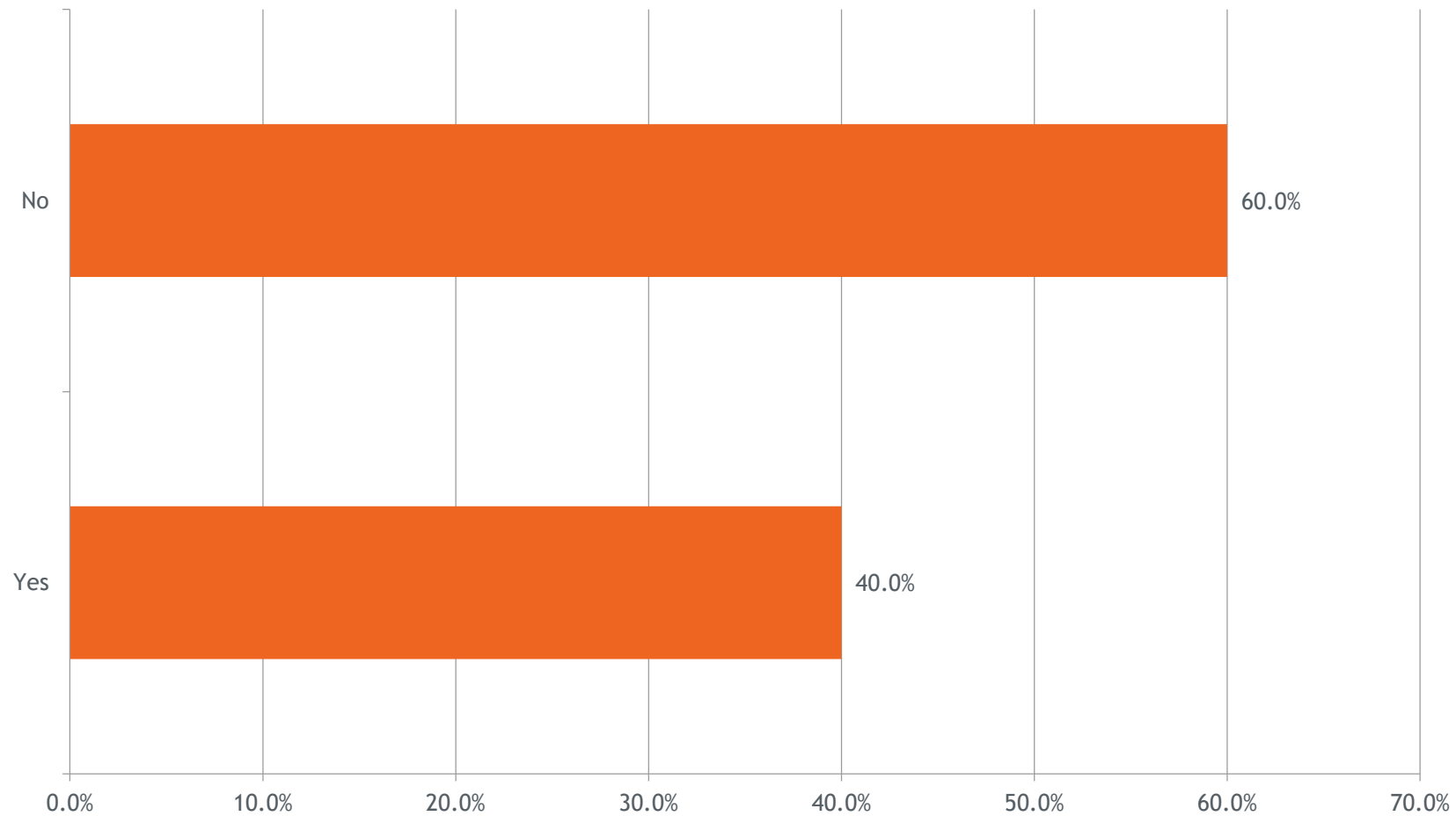


# Customer Buying Journey

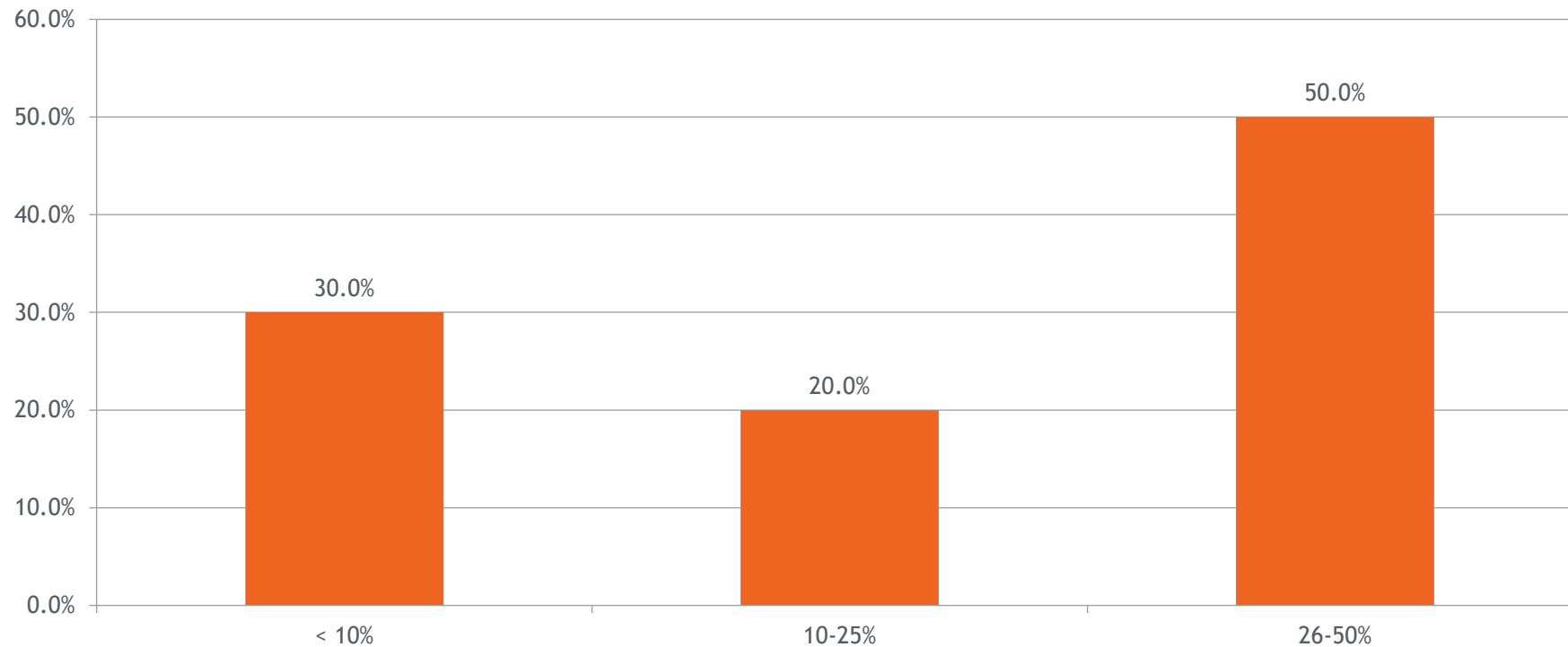
- The majority (60%) of respondents indicate they cross-sell or up-sell SC/EW during the entitlement process if the customer doesn't have a program in place.
- This tactic helps increase attach rate. In fact, half of the respondents surveyed indicated that customers purchase programs in 26% - 50% of the times they are asked.



## Cross sells or up-sell SC/EW during the warranty entitlement process that occurs when a customer requests service



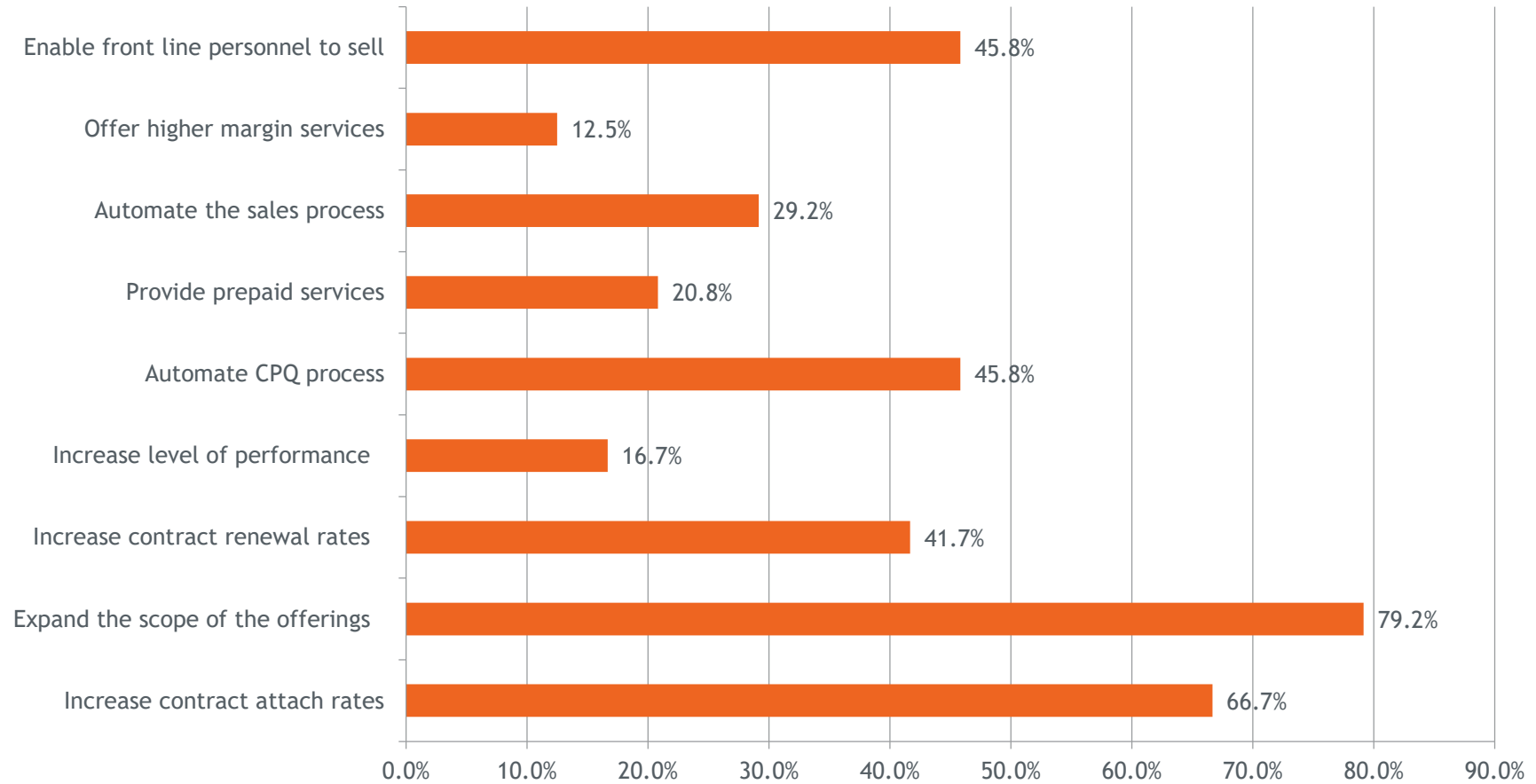
## Percentage of time customers purchase a SC/EW when offered during the warranty entitlement process



# Future Plans

- Respondents were asked to comment on their future plans to increase revenue from SC/EW programs
- A broad range of strategies and tactics were identified by respondents
- The most frequently mentioned was expand the scope (i.e., configuration) of offerings by 79.2% of respondent followed by tactics to increase attach rates by 67.7%
- Other frequent mentions include:
  - Enable front line personnel to sell: 45.8%
  - Automate CPQ process: 45.8%
  - Increase renewal rates: 41.7%
  - Automate the sales process: 29.2%

## Plans to Grow SC/EW Revenue



# Summary

- **Best in Class Metrics:**
  - Attach Rate in excess of 50%
  - Renewal Rates greater than 75%
  
- **Key Drivers of Attach and Renewal Rates:**
  - Level of customization
  - Coverage & configuration
  - Flexibility of terms
  - Frequency of communication
  - Use of front-line service personnel in sales process
  - Use of Automation



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