Builder-Provided Extended Warranties and Service Plans: Business Opportunity or Bad Idea?

August 18, 2020
TODAY'S PRESENTATION

AGENDA

Background

Business Concept
Extended warranty

Path Forward
Future of home warranty

Q&A
Discussion

Opportunity

Contact Info
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Background:
Home Warranty
BACKGROUND : WARRANTY

BUILDER WARRANTY

Typical Warranty

One Year Duration
BACKGROUND : WARRANTY

**BUILDER WARRANTY**
- Typical Warranty
- One Year Warranty Duration

**THIRD PARTY WARRANTY**
- Some builders purchase
- 2-year to 10-year Duration
- “insurance policy”
- Offer marketing materials
BACKGROUND: WARRANTY

BUILDER WARRANTY
Typical Warranty
One Year Warranty Duration

THIRD PARTY WARRANTY
Some builders purchase
2-year to 10-year Duration
“insurance policy”
Offer marketing materials

WHY?
Builders do not want to handle warranty administration / call backs
Third party handles warranty administration, provides guidelines, etc.
Each state has its own laws for governing the process of resolving disputes between project owners and for the work.
Understanding the Opportunity
OPPORTUNITY – Questions

Why would a builder want to “disconnect” with clients after the sale?
Why would a builder want to “disconnect” with clients after the sale?

Are past clients a source of referral business?
OPPORTUNITY – Questions

1. Why would a builder want to “disconnect” with clients after the sale?
2. Are past clients a source of referral business?
3. Why outsource customer satisfaction?
OPPORTUNITY – Cost-Per-Lead

Let’s understand the actual cost-per-lead:

Divide the total amount spent on marketing by the number of leads received

Generalized cost-per-lead benchmarks by industry

OPPORTUNITY – Second Most Expensive Asset

Warranty Ratio:

Average Life Span of a Car | Average Car Warranty

11.5 years/average lifespan

3 year/36,000 mile warranty

(Source: IHS Automotive, 2015; United States Department of Transportation 2017)

(Source: Edgerton 2010).
OPPORTUNITY – Second Most Expensive Asset

Warranty Ratio:

Average Life Span of a Car | Average Car Warranty

11.5 years/average lifespan | 3 year/36,000 mile warranty

26% of average automobile lifespan covered by warranty

(Source: IHS Automotive, 2015; United States Department of Transportation 2017)
(Source: Edgerton 2010).
OPPORTUNITY – Most Expensive Asset

Warranty Ratio:

Typical Warranty Home (in Years) | Lifespan of Product

2 years (new home warranty assumption) | 50-100 years or more (for a home built today)
(Source: Swiss Life Group 2018; Geffner 2010).
OPPORTUNITY – Most Expensive Asset

Warranty Ratio:

Typical Warranty Home (in Years) \(\text{I}\) Lifespan of Product

2 years (new home warranty assumption) \(\text{I}\) 50-100 years or more (for a home built today)

(Source: Swiss Life Group 2018; Geffner 2010).

At only a 50 year lifespan = 4% of average home lifespan
Business Concept
BUSINESS CONCEPT

Extended Warranty

- Include a service plan
- Ensure the house is properly maintained
- Opportunity to stay connected with customer
- Cultivate positive reviews
- Grow referral business

Business Opportunities

- Low risk to builder
- Product warranties provide longer coverage than current builder warranties

Indicators

- Net Promoter Score (NPS)
BUSINESS CONCEPT – Net Promoter Score

Net Promoter Score (NPS)

• Measures *customer experience* of your brand and provides the best metric to anchor your customer

• Measures the willingness of customers to **recommend** a company’s products or services

• Index ranges from -100 to 100
  • 10-30 = good
  • >50 is excellent
BUSINESS CONCEPT – Net Promoter Score (NPS)

NPS = No. of Promoters – No. of Detractors / Total No. of Respondents \times 100

- **PROMOTERS**: Respondents who gave a score of 9 or 10
- **PASSIVE**: Respondents who gave a score of 7 or 8
- **DETRACTOR**: Respondents who gave a score from 0 to 6
Path Forward
PATH FORWARD

ULTIMATE GOAL: “CUSTOMER FOR LIFE”

Positive Customer Experience
PATH FORWARD

ULTIMATE GOAL: “CUSTOMER FOR LIFE”

- Positive Customer Experience
- Maintain Customer Satisfaction
PATH FORWARD

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- GREAT reviews, social media
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Referrals
Q&A/Discussion
COMMUNICATION

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