

# welcome

Retailers have been making free with the prices of the extended warranties they push, and finally the law makers are taking notice.

As we await the Competition Commission's verdict, perhaps it's time to reconsider how suppliers provide their technical support

Anyone who has ever bought electrical goods in a retail outlet will be familiar with the pounds of pressure sales staff exert on the customer to take out extended warranty cover. Nor will they be surprised that the OFT (Office of Fair Trading) has condemned the whole business as confusing to consumers and lacking in competition.

## Warranting scrutiny

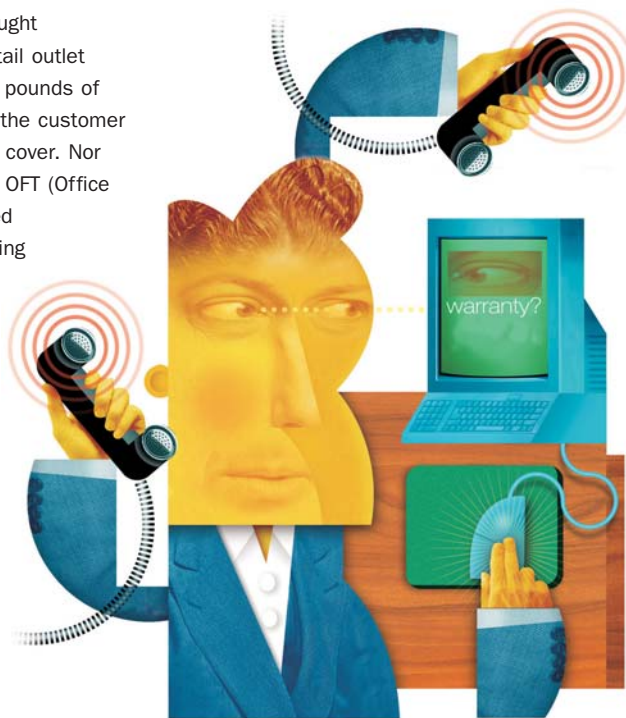
These warranties, providing repair or replacement and accidental damage cover, usually run for three years and add from 10-50 percent to the price of the item. The OFT has pulled up short of calling the extended warranty business crooked. But it has said that retailers can't be relied on to regulate themselves and has referred the matter to the Competition Commission (previously the Monopolies and Mergers Commission).

The Commission will decide if the sale of extended warranties is operating against the public interest and whether a monopoly exists. It will report to the government in 12 months time. If the Commission decides a monopoly exists, it will have to be broken up and there will be fundamental changes in the way warranties are sold.

Naturally, retailers aren't too happy about this. On the day the OFT report was published, DSG (Dixons Stores Group) released a self-righteous repost extolling the virtues of its warranties and condemning the OFT's move in referring the issue to the Competition Commission as an "expensive and disproportionate action". But then extended warranty sales are a £500m business in the UK, of which DSG accounts for about a third.

## Useful comments

However, not all retailers have jumped to the defence. Time, the owner of the Computerworld chain, jumped on to



## Time argued that extended warranties on PCs are fundamentally different because of the complexity of the product compared to, say, a kettle

*PC Advisor's* ConsumerWatch forum and argued that extended warranties on PCs are fundamentally different because of the complexity of the product compared to, say, a kettle. A three-year warranty on a kettle is a rip-off; it runs in parallel to the manufacturer's standard one-year warranty, so it only lasts for two years anyway. And you can buy cheaper cover against accidental damage or breakdown via your house contents insurance or similar.

But an extended warranty on a PC is there to ensure the provision of support in the shape of telephone fault diagnosis,

handholding and advice. The problem, argues Time, is that not everyone requires the same level of service. Some customers require a high degree of handholding; others only need bailing out if something catastrophic goes wrong with the PC; small problems they can sort out for themselves.

Time advocates flexible support contracts charged according to the level of support required, rather than a one-size-fits-all contract which overcharges the majority.

## One thing's certain

What everyone can agree on is that the extended warranty racket is giving retailers a bad name. This is just the kind of thing which has everyone jumping around shouting 'rip-off Britain'. It makes retailers look untrustworthy: behind the big red sale signs, the special offers and

the 'can I help you sir/madam?' approach lurks a desire to screw customers for hundreds of pounds. In the end it can only backfire, driving people out of the shops and preventing them from buying.

Business is based on confidence and trust. Look at what has happened in the stockmarket: the latest detumescence in share prices has nothing to do with international terrorism and everything to do with the fact that companies like Xerox have been using the enlarge button on their profit and loss account. If these multinational companies are telling such whoppers about their profits, who will trust them? Whose figures can you trust? Who wants to do business with people you can't trust?

Customers have always suspected that retailers were ripping them off with extended warranties. Now it's been confirmed by the UK's pre-eminent watchdog, the OFT. The retailers need to act to put this straight because they are driving customers away. ■

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