

Tire Review

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Selling
Peace
of Mind

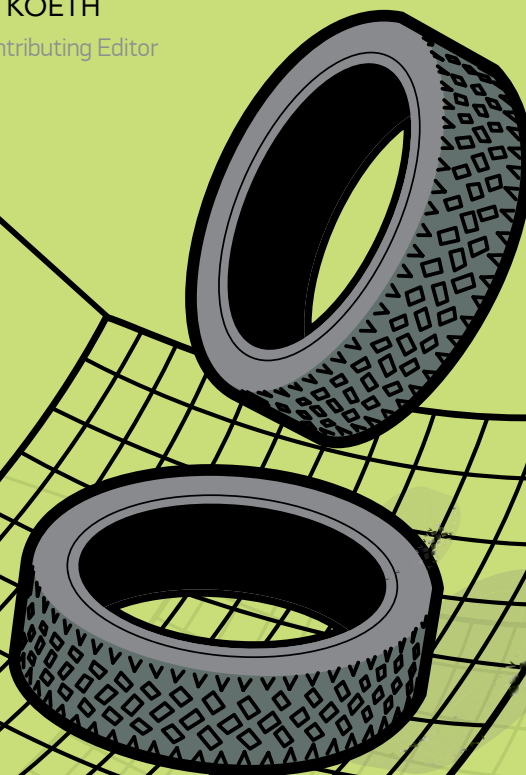


Selling Peace of Mind

In a perfect world, drivers would glide their vehicles over smooth-as-glass roadways. Newly purchased tires would perform as designed with even wear and nary a flat throughout their entire lives. And a consumer would have no qualms about paying for the somewhat significant investment of a new set of tires at the trusted independent tire dealer of his or her choice.

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But alas, our roads and highways are often anything but smooth, with potholes, cracks and tire-puncturing items lying in wait.

Enter road hazard programs and extended tire warranties, created to give drivers peace of mind when forking over several hundred dollars for a new set of tires. But are the programs really all they're cracked up to be – and do today's consumers even see their value? More importantly, how can offering such warranties benefit a tire dealer's bottom line?

The Case for Warranties

Each year in the U.S., more than 5 million road hazard incidents occur, according to David Jones, president and CEO of Sonsio, a nationwide provider of warranty products and related services to the automotive aftermarket. He adds this number is ever-increasing as road conditions worsen.

"When someone is stranded or has to pay full price for a tire they just purchased that becomes damaged by a road hazard, the value of having the coverage is obvious," he says. "Selling road hazard eliminates customer service issues while enhancing the customer experience."

When it comes to protecting their tire investment, the majority of consumers are familiar with – and actually seek out – road hazard or tire warranty programs.

"Enhanced tire warranties can help substantiate real value and contribute greatly to the justification of a tire's price, often providing points of differentiation between retailers," says Wes Stephenson, vice president of operations for Tire Pros Francorp, a subsidiary of American Tire Distributors.

He adds that tire protection plans address two key points of motivation for consumers: "The customer's desire to find trustworthiness and reliability in the auto service facility is addressed through this written contract guaranteeing first class service after the sale while expressing the highest level of confidence in the products that were installed. Secondly, the customer's fear of future loss is addressed through this boosted protection of their investment."

Simply put, the programs "improve consumers' peace of mind on what can be a significant financial purchase,"

notes Travis Roffler, director of marketing for Continental Tire the Americas.

Warranties and the Bottom Line

Since drivers understand the need for warranty / road hazard programs and may factor them in when comparison shopping, how can offering such programs affect a tire dealer's business – and conversely, would choosing not to provide a plan harm a shop?

According to Jon Schadl, director of outside sales for K&M Tire, while choosing not to offer such programs probably wouldn't harm a shop's business, it would be a missed opportunity to increase profits.

"Road hazard is no different than any other extended warranty – it is highly profitable if sold correctly," he notes.

Sonsio's Jones views the question a bit differently, saying, "Offering a road hazard protection program not only eliminates customer dissatisfaction when a road hazard incident occurs, it also drives repeat business. In fact, more than 85% of customers who purchase a road hazard program return to the original facility when they need tire repairs, additional service, and new tires."

Shops that do not offer such programs "run the risk of having dissatisfied customers returning to their shop when they have a road hazard incident, and becoming angry when they are informed that the incident isn't covered," Jones explains. "Road hazard has become a more frequently requested product by consumers, and shops that don't offer it put themselves at a competitive disadvantage. While the consumer who is just buying on price may not choose road hazard, the shop has to be able to offer the option of coverage."

Stephenson agrees that tire protection plans are ideal for increasing customer retention, as many incorporate free services such as tire repair and rotations, which bring the customer back to the shop regularly.

"One very compelling benefit to offering tire protection plans is that they have proven to be very profitable to the tire dealer," he explains. "Simply put, these programs generally collect much more than they expend."

On the flip side, Stephenson says not offering a plan essentially elimi-

nates a valuable tool from a dealer's toolbox.

"Anyone in this industry should understand that if we eliminate a tool from our toolbox, we are at the disadvantage to shops that possess that tool," he says. "With major chain stores and national tire retailers reporting 70%+ success in the sale of add-on protection plans, more and more tire consumers are becoming accustomed to a higher level of service and warranty backing from their tire retailer. If you are going to be 'exceptional,' don't be the exception to good things available almost universally."

Tire Dealer Strategies

Dealers themselves seem to agree with the value of add-on tire warranties and protection plans, since all of those polled for this article feel the programs are necessary. How such programs are offered, however, varies among dealerships.

Redwood General Tire Pros, located in Redwood City, Calif., offers all its customers the Tire Pros warranty package, which includes a road hazard warranty and roadside assistance.

"The Tire Pros program is nationwide, so if you're far from our store, you can call an 800 number be guided to the nearest location," says owner Alpio Barbara. "There's a \$250 promise, which will provide our customers security if their car needs to be towed."

The program includes free tire rotations, alignments and flat repairs. Tires that cannot be repaired are replaced within the first year or the first 10% of tread; after that, a replacement value is prorated.

"The cost is generally \$10 per tire for the warranty; as you get into the more high performance tires, we charge 10% of the tire purchase price," Barbara says. "It's basically paid for after the first flat repair, but some people still don't want to add an extra \$40 to their purchase of a set of tires."

He says there have been times when a customer who did not purchase a warranty comes in seeking a flat repair. In those situations, Redwood General staff allows him or her to buy into the warranty at that time, and performs a free flat repair.

"It's valuable because it keeps customers coming back; it's a tangible way that they're attached to us. I view

it more for customer retention than a profit center," Barbara says, adding that of the warranty claims made, 60% are for simple flat repairs. Roughly 75% to 80% of customers who purchase a warranty return to the shop for tire service.

Using a combination of the Tire Pros program and a self-financed package is Direct Tire, located in Watertown, Mass.

"With the cost of replacement tires today, low profile and UHP tires being so prevalent, and the condition of the roads in the Boston market, we want to sell it and our clients love the option and find it very worthwhile," says Barry Steinberg, CEO.

The shop charges customers about 10% of each tire's price – \$25 for a \$250 tire, for example – for road hazard packages.

"We've been offering a road hazard program since I opened 40 years ago," Steinberg says, adding that some brands, like Toyo, for instance, come with a free replacement warranty for road hazards. "When I brought Toyo in 25 years ago, nobody else had the tire

in the Boston market. I figured if I'm going to bring a brand in and promote it quickly and loudly, I should dress it up with a free 3-year replacement warranty. We've offered that ever since."

He sees warranties as both a profit opportunity and a customer retention tool and estimates that out of all the warranties Direct Tire sells, only 2% to 3% result in claims— though he did say the figure is slightly higher, closer to 5% to 6%, for winter tires.

"The average dealer is afraid to offer warranties because it could cost his shop money," Steinberg adds. "But let's say he gets \$25 for a warranty on a tire and that customer goes out and ruins a \$150 tire. Guess what? That's the best sale he made all day, because that customer will go out and tell all his friends that the dealer replaced his tire for free. It'll help build a tremendous customer loyalty, plus it's very a small percentage of customers who end up filing a claim, so it isn't that costly in the end."

Lex Brodie's, with five locations on the island of Oahu, Hawaii, offers a road hazard warranty as part of its self-funded Full Service Tire Package,

which it includes for free when a customer purchases a set of tires (the shop does exclude tires series 45 and below from the coverage).

The dealership charged for the package in the past and would document if a customer declined coverage, but that sometimes resulted in hard feelings and lost customers when those who declined returned for tire repairs, according to president Scott Williams.

"We decided we would end this potential for upset customers and turn it into an opportunity to build customer loyalty and approval," he notes. "This program also works well, since Costco and Sam's Club don't charge extra for their road hazard."

Lex Brodie's does not closely track the percentage of customers who make warranty claims, but it's not enough to see profit margins noticeably affected, according to Williams. "When it comes to customer satisfaction, it's not about profit margins anyway; it's about taking care of your customer," he adds.

Plan Options Abound

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marketing group or outside provider, tire warranty and road hazard plans can vary widely. Several companies offered input for this article to provide readers with a sampling of available options.

TBC Brands offers warranty coverage on select Sumitomo brand passenger and light truck products "designed to foundationally support the Sumitomo value proposition with both dealers and consumers," says Jon Vance, vice president of product marketing for TBC Brands. "We offer complimentary one-year road hazard coverage, free two-year roadside assistance coverage for tire-related issues, and a no questions asked 30-day free test drive on the Sumitomo HTR Enhance Touring line, HTR A/S P02 performance line and the new Sumitomo Encounter HT light truck line."

Continental Road Hazard Coverage, which applies to all Continental brand tires that are purchased as replacement, promises a free comparable replacement tire during the first 12 months from the date of purchase (or the first 2/32nds of treadwear, whichever

comes first). According to Roffler, the Total Confidence Plan is a comprehensive package of all available Continental warranties and services, including: Limited Warranty, Flat Tire Roadside Assistance, Customer Satisfaction Trial, Mileage Warranty (if applicable) and Road Hazard Coverage.

The tiremaker's General brand passenger and light truck tires are eligible for the Limited Warranty and Adjustment Policy for a maximum of 72 months from the date of purchase. The policy allows for free replacement during the first 12 months from the date of purchase (or the first 2/32nds of treadwear). A Customer Satisfaction Warranty covers tires bearing the Continental name and DOT serial numbers up to 45 days (or the first 2/32nds of treadwear); and a Mileage Warranty covers select replacement products up to 75,000 miles, Roffler adds.

K&M offers a Mr. Tire self-funded nationwide road hazard warranty, which gives its dealers the ability to offer such a program without taking away from any profits, according to Schadl. The Mr. Tire Road Hazard Cer-

tificate promises free replacement with a Platinum Certificate, and pro-rated replacement with a Gold Certificate, for all tires registered in the event of a failure due to a non-repairable road hazard, workmanship or material defects for the life of the original tread, down to 3/32nds remaining or three years from date of purchase, whichever comes first.

Tire Pros dealers have access to a Tire Protection Plan for free replacement for 12 months/12,000 miles, including road hazard, good at more than 30,000 locations nationwide and featuring a toll-free hotline for consumers, according to Stephenson. Additionally, Tire Pros customers are given a Nationwide Roadside Assistance benefit that reimburses them for towing, lock-out, flat tire changing service, fuel delivery, and car rental for one year from purchase. In addition, Tire Pros provides a \$250 Promise that adds a \$250 "inconvenience" benefit if the warranty administrator cannot refer the motorist to a warranty location that is less than 25 miles from the disabled vehicle.


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Sonsio offers programs that automatically embed tire road hazard coverage for manufacturers, importers and distributors; programs that can be offered at the point of sale; and programs sold through the company's online pay-as-you-go system, according to Jones.

"With Sonsio's road hazard protection programs, dealers receive customer referrals and can generate immediate profits without any long-

term regulatory or financial risk," he adds. "Shops generate an average profit of \$5 to \$25 per tire when selling road hazard coverage...Tire repairs are also reimbursed with many of our programs. Sonsio programs also allow dealers to provide nationwide coverage to their customers."

Marketing Warranty Programs

While the decision to carry some sort of road hazard or warranty cover-

age may be a no-brainer, the mechanics of how dealers market and sell such programs is anything but. Questions of free vs. paid, and of how to let the public know such services are offered, require some strategic planning.

Sonsio offers marketing assistance to its more than 55,000 automotive facility clients in the U.S. and Canada, according to Jones, who adds that this includes sales training, tools and strategies to drive volume and to educate customers.

"There are many ways to offer a road hazard program, whether giving it away to customers as an added-value benefit or charging a percentage of the tire price," he says, adding, "We always recommend including the road hazard program in the first in-store quote, right along with balancing, valve stems, etc."

"I would not recommend giving road hazard warranty away for free," advises Schadl. "Consumers expect to pay for services like this. Think of road hazard like an add-on sale. It's also a great way to see if your sales staff is actually selling or is just taking orders."

Redwood General includes warranty information on its website, while its staff also emphasizes it when selling.

"Oftentimes we'll make the tire sale, then when the customer is waiting in the showroom or comes in later, we talk about the road hazard program," Barbara says. "The percentage (of customers who opt for the coverage) is quite high."

Stephenson agrees that such programs should be sold, rather than given away for free.

"Over the years, I have met many independent dealers who were convinced that their customers would not pay for enhanced warranty programs; that their market was 'different,' or in many cases, the dealer had 'tried that once and the customer had winced' and so the idea was abandoned," he explains. "Yet, when a national chain moved into those very same markets, armed with a soft but consistent pitch and with the discipline to offer the plan to every customer, the adoption rate ran overwhelmingly in favor of the purchase."

"This proves that, with proper training on sound procedures and with enforced accountability, enhanced warranty programs are a success," Stephenson adds. TR



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