



# **Educated Consumers Spend More**

White Paper on the Effects of Product Protection on  
Consumer Confidence and Willingness to Pay

## Introduction

There is not an abundance of data driven information available to the retail community regarding extended warranties, accident protection, and the effects these offerings have on a retailer's most valuable asset: their customers.

Until recently, offering extended warranties to the consumer was something accessible only to the largest of retailers, brand manufacturers, and the automobile industry. What little exposure the general population of retailers does have to extended warranties is heavily influenced by the experience consumers have had with these big-box, in-store, and commission-driven, profit-rich environments<sup>1</sup>. Opinion editorial content on the subject of extended warranties often villainizes the service as "expensive" and "not worth it"; however, research shows that still one third of consumers today choose to purchase an extended warranty or accident protection. Moreover, this same research found that attachment rates had a positive correlation with consumers' familiarity with extended warranties and how they work (Wolf, 2017).

By combining both qualitative and quantitative observations from transactional history over a five month period where consumers were given the opportunity to add product protection to their purchase at the point of sale, the theory that consumers who value protection plans are informed, savvy, and educated shoppers, as indicated by an increase in their willingness to pay when provided the opportunity to purchase a protection plan at the time of purchase. While our analysis does not *prove* that consumers who purchase protection plans experience an increase in willingness to pay, it definitively supports a hypothesis that when consumers are educated about protection plans, their confidence in their purchasing decisions increases. Thus, leading to an increase in their willingness to pay for equal or greater products by as much as 38.8% averaged across all categories, and 60.5% for furniture and home goods.

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<sup>1</sup>Analysis in the US shows extended warranties accounted for almost half of BestBuy's operating income in 2003, and that profit margins on warranties ranged from 50% to 60% ("The Warranty Windfall," Business Week (December 19, 2004)). *Warranty Week 2005a* shows that Ford and Dell each brought in more than \$1 billion a year through the sale of extended warranties in 2005. Dell's extended warranty revenue as a percentage of operating income sales rose from 24% in 2003 to 38% in 2005 (*Warranty Week 2005b*).

## Identifying the Nuance in Product Protection Plans

### Differentiating Product Protection

We would like to note that not all product protection offerings are created equal, and there are common misunderstandings about the differences between Limited Warranties, Extended Warranties, and Accident Protection (commonly referred to as "ADH" or Accidental Damage from Handling). As indicated by a recent study on the upward distortion of claims probabilities, research often specifically focuses on extended warranties as they relate to the failure of the product to function as originally intended by the manufacturer (Salant & Abito, 2018), failing to take into consideration perceived claims probabilities based on personal circumstances such as children, pets, or intended frequent use.

### Operational Inefficiencies are Causing Poor Customer Experiences

Running product protection programs have traditionally been a resource intensive endeavor with very little to no technological or operational efficiencies in place. Similar to how poor experiences plague other sectors running on old processes and technology, the extended warranty program of old is also fraught with negative customer experiences. With rapidly rising minimum expectations for their shopping experiences, consumers today are more educated than ever.

Rather than categorically identifying product protection plans as poor purchase decisions for consumers, the data indicates that consumers are becoming more educated in both the quality and applicability of protection plans for their purchases, leading to higher confidence levels and subsequently higher willingness to pay when making purchasing decisions.

## How Does Offering Product Protection Effect Educated Consumers?

### Quantitative Observations

We collected transactions over 42,500 eligible products sold by 48 different retailers over a five-month period. The average price for the 40,000 products purchased without a protection plan was \$269.24, whereas the average price for the 2,500 similar products purchased with a protection plan was 38.8% higher, averaging \$373.74 in value. By "eligible product," we are referring to those products in a retailer's catalog where a protection plan is available and offered to the consumer at the time of purchase.

We also focused on the performance of a subset of the eligible products that specifically offered Furniture Protection Plans that included Accident Protection. The average price for products purchased without a protection plan was \$509.27, whereas the average price for products purchased with a protection plan was an impressive 60.5% higher at an average price of \$817.20 with an overall attachment rate of 16% for eligible products.

### Qualitative Observations

Qualitatively, over this same time period we have also experienced shoppers asking which stores offer protection plans for the type of product(s) they were looking to buy. These consumers expressed their intention to purchase a product at a higher base price from the retailer offering product protection than a lower price from a retailer not offering product protection.

We are not insinuating that all consumers who buy protection plans are educated shoppers; however, we are saying that self-identified, educated buyers have expressed their appreciation for extended warranties and accident protection when offered.

## Conclusion

Without purchase history from retailers prior to offering protection plans through Clyde, it's difficult to identify causation with regards to the effects of offering product protection on consumer confidence and willingness to pay. What we can clearly identify, however, is that even within retailer-consumer cohorts, consumers have an increased willingness to pay for products when purchasing product protection plans, as demonstrated by substantial increases in average product value and customer feedback.

Although Insurance Theory in Extended Warranties operates on the assumption that buyers are risk averse (Chintagunta & Chu, 2011), our observations along with the aforementioned published studies support the conclusion that educated and informed consumers are more likely to purchase some form of product protection with their original purchase when given the opportunity. Furthermore, we conclude that historical advances in previously technologically disadvantaged sectors give precedent to the theory that better supporting processes and technology, as well as consistently accessible and accurate information, lead to better customer experiences.

This level of customer service was not an option in the recent past of the extended warranty industry. Today, services like Clyde offer retailers the ability to seamlessly integrate software, processes, and accredited insurers to offer their consumers product protection and, ultimately, a better buying experience.

## Connect with Our Experts

To learn more about how to offer your customers product protection using Clyde's easy-to-implement software and insurer network, please contact us:

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## Sources

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