



What to Look for in a VSC PROVIDER

By: Mike Melby

Good industry partnerships are built on more than price alone. Learn how factors such as reputation, portfolio and technology help great agents pick great service contract providers.

It's Friday afternoon. The sun is beaming through your office window and the images of weekend plans for 18 holes on your favorite course and a graduation party for your nephew are dancing through your head. You just have to tie up a few loose ends before heading out the door.

And then, at 4:45, it happens. The phone rings and it's your biggest account. A service contract they sold on a random Tuesday 18 months ago has come back to bite them. A repeat customer had an issue with a covered repair, they don't know why, and now it's your problem.

What do you do?

You handle the problem, do what you need

to save the account, and then you seriously consider whether it's worth switching service contract providers. But what do you look for? You have your current provider because every one of your dealers says they're concerned about price. But where did that get you? You want someone with all the options, but you don't want to send prices soaring through the roof.

It's no secret how important service contracts are to your dealers' CSI and profitability, and you don't need a reminder of why they matter for your bottom line. But once you've been burned, it's difficult to hide the scar. And finding the right provider that makes you more valuable to your dealers while improving their CSI and increasing profitability is no easy task.

Knowing just what to look for in a service contract provider is the first step. Your service contract business is too important to put at risk by making a decision based on price and price alone.

Here are some additional aspects to consider:

1. REPUTATION

Your service contract provider is a reflection of you and your dealers. You both

strive to operate reputable businesses, so why should you look for anything less in your service contract provider?

Don't sell short the value of a company's longevity in the marketplace and its ownership. A company with decades of experience will have proven stability through volatile times — a level of security that's a product of success-minded ownership.

The service contract business is an easy one to get into, and it's an even easier one to find your way out of. The dangerous road that looms from under-reserved contracts is littered with warning signs of problems to come — which we'll cover later — that can lead to major headaches for you and your dealers.

It's also important to learn about the insurance backing of your service contract provider. Is it rated highly by A.M. Best? Is it in good standing with the BBB? What do people have to say on the Internet, and is it an accurate sample that represents the business as a whole?

It's important to be thorough when assessing a company's reputation, because asking just one of these questions won't paint the full picture of the service contract options you're considering.

2. INDUSTRY KNOWLEDGE

The biggest benefit you stand to gain from partnering with an experienced service contract provider is the industry knowledge that company brings to the table.

Take, for instance, a company with decades of experience administering service contracts. Those years are more than just candles on a cake. They're evidence the company has been able to properly assess vehicle risk and reserve accordingly. In doing so, claims will always be paid and there is little risk of that 4:45 Friday afternoon call.

Conversely, take a service contract provider with little experience and bargain basement prices. In these instances, it's important to proceed with caution and ask the right questions. Do the low prices mean that contracts aren't properly reserved? What is the claims approval process like if we're working with a limited reserve account? Are claims decisions made fairly and consistently?

When prices are insufficient to cover required reserves, over time, you stand to see substantial price increases to correct course. Then you can expect tighter claims approvals. And when the belt can't be tightened any more, you're left stranded when the provider exits the service contract space altogether.

A reputable service contract provider with a proven track record of industry knowledge and experience can alleviate these fears.

3. PORTFOLIO PERFORMANCE

At the end of the day, it is all about remaining profitable. An added benefit of working with a service contract provider that has the knowledge to reserve properly is the protection it provides for back-end profit opportunities. And that's something from which both agents and dealers stand to benefit.

When it comes to used and high-mileage vehicles in particular, having a secondary provider that specializes in this niche will help keep those vehicles out of your dealers' reinsurance pools. It will also optimize the reserve performance on those vehicles since the contract is built to withstand repairs most likely to occur.

When a service contract provider has the experience and knowledge to know how a vehicle will perform and what components will break down over the life of the contract, you and your dealers have the security to continue with business worry-free.

4. PAID CLAIMS

If a service contract provider can do one thing — and one thing only — for you, it would need to pay claims.

Don't be hesitant to get into numbers. How many claims have they paid? What is the amount of the claims paid? How quick is the claims process? Ask about staffing and expertise in claims adjudication. See how they work with shops in your area. And for that matter, find out how many shops a provider works with across the country. After all, breakdowns don't only occur close to home.

Flexibility is also an important aspect of paying claims. Not all providers are willing to make custom programs to fit your business. Every service contract partner and agent relationship is unique. Variables like labor rates, sales tax coverage, commissions and other terms and conditions aren't one-size-fits-all. Find out if your new provider is willing to work with you so you can offer the products and service your dealers demand.

5. TECHNOLOGY

Everything in today's world is going digital, and the service contract business is no exception. It's estimated that upwards of 75% of all service contracts are now filed electronically. At this point, it's no longer a matter of being trendy. Being technologically savvy should be a prerequisite for a service contract provider to win your business. It starts with being able to accept service contract applications electronically, but it should extend well beyond that.

A quality service contract partner should be able to prove engagement and successful integrations with DMS providers. It's all about ease of use for the dealer, so having a service contract available in the same software they're already using is vital.

And let's not forget about capabilities like online claims, which can make life easier on a dealership service facility. Online training could be another point of emphasis. You can't be in a dealership every second of every day, so ask your service

contract provider what online resources are available to assist in onboarding dealerships with their new product.

6. OTHER PARTNERS

Nothing is more powerful than a reference or referral. It's not uncommon for the best agents to partner with the best service contract providers. A good sign of the quality of a service contract provider is the company it keeps, so ask about some of the other clients the company works with.

Just like the restaurant that caters to the stars, the best and brightest agents will partner with the service contract provider that delivers the best service and aligns with their values. Getting to know a provider from the inside out — meaning becoming acquainted with company culture and values — will help instill confidence that you're entering into a relationship with a partner who has your best interests at heart.

7. PRICE

All this leads us to end with the point of consideration with which most conversations will begin: price. If you've made it to this point of the article, you can understand why price, while important, is less of a focal point than these other traits to look for in a service contract provider.

It goes without saying that you don't want to price out your dealers and their customers, but it's vital to stress that nothing is more important than their reputation. Having the right service contract provider in a store might not always be the cheapest option, but when it comes to improving CSI, protecting reinsurance portfolios and enhancing profitability, your choice in a service contract provider makes all the difference in the world.

If you're still asking yourself whether making the switch to a new service contract provider really worth it, think about the next time the phone rings at 4:45 on a sunny Friday afternoon. With the right provider in place, you won't have to worry about what's on the other end. You'll know your dealers are satisfied, selling more cars and making more money.

So, the only question you'll need to answer is what you're bringing to the weekend barbeque. **AE**

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