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JOHN CLARE
Chief Executive

Dame Sheila McKechnie OBE
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2 Marylebone Road
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12th February 2003

Dear Dame Sheila

I am writing to you following the Consumers' Association's latest comments on extended warranties.

As you will recall, I have often invited representatives of the Consumers' Association to spend some time with us to learn at first hand the kinds of problems our customers encounter, to listen to our help-lines and see the range of problems our technical advisers and repair engineers help customers to resolve with products, faulty or otherwise. It is a matter of regret that no-one from the Consumers' Association has taken up this offer but it perhaps explains what I believe to be the outdated and inappropriate views that your association continues to take to after-sales support for electrical products.

Like you, however, I am not easily deterred from making a case that I believe to be right so I want to renew that invitation and also take the opportunity to set-out some facts about the nature of after-sales support in electrical retailing.

The Consumers' Association's comments about "extended warranties" imply that these are simply an extension of the limited cover offered by manufacturers' warranties. That is, if a product develops a technical fault through normal use, it will be repaired free of charge. Twenty years ago such an assertion may have had some validity. Today, however, customer requirements have greatly increased as products have grown more complex and use and reliance on products have greatly increased. Whilst some "extended warranties" in the market still restrict support to a repair when technically faulty, products such as our own *Coverplan* and *PC Performance* offer "total customer support" and go far beyond the limitations and scope of manufacturers' warranties, extended or otherwise. The Consumers' Association's over-simplification of a very broad and competitive product offering both misunderstands the complexity of modern electrical retailing and the needs of today's customers and risks severely misleading those customers.

Many products are complex and have to interact with others already owned. Set-top boxes are used with VCRs and TVs, digital cameras and scanners with PCs and printers. You may end up with a Pace set top box, a Toshiba VCR, a Panasonic DVD player and a Sony television, all of them joined together with a JVC scart lead. Each will have a remote control. Now if the picture or sound "fails" on the television, where is the "fault" or what is the cause? Who can the customer turn to for help in such a situation? The answer, of course is the retailer. That is why we have developed our total business model to meet these consumer needs. We aim to offer a combination of market-beating prices, product choice and availability and outstanding customer service both at the time of sale and, crucially, over the life of a product. Reassurance on the level of after sales support available can be a critical issue in deciding where to buy.

Comments on extended warranties that persistently focus only on “technical failure” rates are far wide of the mark. Customers don’t just need support when a product technically breaks down. They need support throughout the life of the product, whenever they cannot get it to function properly, for whatever reason, whether a technical fault exists or not. That support includes not only friendly and knowledgeable staff to help the customer in store but also home delivery and installation, accidental damage cover and repair, theft cover, technical assistance through 24-hour help lines, product performance checks and installation of product upgrades, all in addition to repairing faults if and when they occur.

Let me address a number of your assertions and why I think they are erroneous.

“Today’s products are more reliable”

Twenty years ago there were fewer than a tenth as many products than there are today. There were fewer manufacturers, many electrical products were relatively mature and there had been relatively little innovation for many years. Digital products had barely appeared. Among the many products that had not yet reached the market were: Dyson and other bag-less vacuum cleaners, frost-free refrigerators, CD players, mini-disc players, DVD players, laptop and palm computers, digital cameras, satellite televisions, digital TVs, LCD and plasma screen TVs, games consoles, internet access products and many, many others. There were relatively few remote controls. The innovation and complexity that have permeated electrical retailing in the past two decades is unparalleled.

Relative to their age and maturity today’s products are no more or less reliable, but their complexity is far greater and the use they are put to is much more demanding. The principal factor in products not functioning properly is not so called “technical reliability” but the method and intensity of use. Thirty years ago few children were allowed to touch the buttons on the TV. Today many have their own TV, VCR, hi-fi, games console and a variety of portable products - small wonder that claim rates increase in absolute terms each year. Likewise it is the rate of use that largely dictates the level of support needed. A washing machine used once a week will last far longer than one used three times a day. The back-up VCR in the bedroom will last far longer than the one used daily in the living room.

A manufacturer’s warranty will only cover the product for any fault that is deemed to be integral to the product. It will not cover a toddler sticking toast in the VCR, bra-wires jamming in the washing machine, dropping a digital camera in the sea or spilling coffee on your keyboard. Nor will it cover the accidental pressing of a mute button, nor the breakdown of a dishwasher because of a problem associated with its installation. Our Coverplan contracts will.

“Most people don’t claim on their warranties”

The chart below compares the “probability of a claim” quoted in *Which?* Magazine with our actual experience of claim rates (based on the last year of sale with 5 years experience i.e. 1997/98). It also shows the size of our sample. The Consumers’ Association table does not quote a source or sample size and I would be interested to know the sample on which your figures are based.

	<u>CONSUMERS’ ASSOCIATION DATA</u>		<u>COVERPLAN DATA</u>		
	<u>Probability of a claim</u>		<u>Actual claims</u>		<u>Coverplan Sample Size</u>
	<u>3 Year</u>	<u>5 Year</u>	<u>3 Year</u>	<u>5 Year</u>	
Washing machine	12%	17%	71%	145%	153,000
Dishwasher	10%	14%	27%	53%	47,000
Washer drier	15%	25%	105%	197%	32,000
VCR	6%	10%	44%	75%	166,000
Standard TV	6%	9%	33%	56%	158,000

As you can see there is a big difference in the conclusions reached by your sample and ours. We are concerned that the conclusions presented by the Consumers’ Association’s partial information are highly misleading. Many customers cannot afford unexpected call out charges or repair bills (or indeed the complete failure of an appliance). Based on the mis-information

presented in the Consumers' Association's table they may make the wrong decision about protection and the peace of mind that it secures.

"Stores resort to hard-sell tactics"

The BRC Code governing Best Practice for the sale of extended warranties specifically forbids hard-sell tactics but few reputable retailers would engage in them anyway. The battle to win customers is based on providing a reassuring customer experience. We want to win and keep customers who will return again to buy further products. That's hardly going to happen if they are pressured into buying products they don't want. In addition there is a cooling off period after the purchase of extended warranties and similar products in which the customer has the chance to cancel the product when they get home. So pressure selling is likely to be highly counter productive. Again you are very welcome to sit in on our training procedures or review our training materials to see how rigorously we enforce this aspect of the selling process.

"Staff are pressured if they don't sell enough"

Electrical retailing is highly competitive and, unlike groceries and fashion, it is a "sales driven" environment. If a sales assistant is not able to demonstrate expertise in the product attributes and benefits of different models on TVs they will not be effective in selling them and the customers will rightly think they are not being well served. Our sales staff are required to understand the products they sell and are regularly trained and tested for their product knowledge. Our training aims to enable our staff to answer the vast range of questions customers ask. If they don't have the expertise the customers will go elsewhere. That applies as much to Coverplan and PC Performance contracts as to TVs or washing machines and the Consumers' Association is among our most vigilant critics if that knowledge falls below customer expectations.

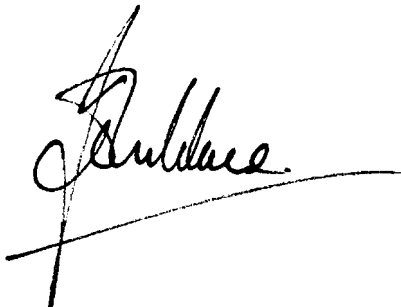
"Why can't you just tell us which are the most reliable brands?"

We can if you're prepared to wait a year or two after you buy it! Unfortunately rapid product innovation and the complexity of sourcing means that whoever is the most reliable this year may not be next year. Reliability is affected by the introduction of new models, new manufacturing methods, component substitution, use of different factories or component suppliers and countless other factors. There is no simple way of listing, or indeed knowing, which brand is the most reliable for a particular product. It is a case where yesterday's record offers little guide to tomorrow's performance.

As you can see our conclusions about the support our customers need are very different from your views expressed in *Which?* magazine recently. I repeat that I would welcome the opportunity to let you experience our helplines, our training programmes and our repair facilities in action at your convenience.

In the interest of putting right what I believe are quite serious misunderstandings arising from the assertions made by the Consumers' Association last week I am making this letter public.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'John Clare', with a long horizontal flourish extending to the right.

JOHN CLARE