

DO WE NEED SERVICE CONTRACTS?

by  
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For several years, I have been beating the drum about the pricing and profitability of oilheat service contracts. It has long been my contention that most dealers undervalue their service contracts to the point where, rather than being a profit center they become a loss leader!

Recently, Gray, Gray & Gray collected sample service contracts from a number of dealers throughout New England. Our goal was to review both the scope of what was covered by the contracts and the pricing attached to each "level" of service. Not surprisingly, the contracts ranged from very basic and simple to quite comprehensive and sophisticated, with an accompanying range of contract prices. So broad was the reach of contract specifics that we were unable to pin down a "typical" service contract.

But my eyes were opened wide by a Maine dealer who placed the entire concept of service contracts in a whole new light. In response to our request for information about his service contract, this successful dealer answered quite simply, "Don't have one. Never did. Never will."

The "radical" service process embraced by this dealer is quite simple. If a customer needs service, he calls and asks for it. A technician is dispatched and the customer is billed for parts and labor. No contract. No monthly payment. No wondering what is covered. Just a simple business transaction—a "pay as you go" approach to service.

Does it work? An emphatic "yes" from Maine. The dealer's service business is strong, he gets full price for the work performed and he has earned the trust of his customers. By positioning his service business as a "pay as you go" proposition, our friend in Maine has eliminated hidden costs and confusing coverage issues that muddle the typical service contract.

Viewed in this light, doing away with service contracts begins to make sense. Consumers have grown wary of paying up front for services they might never need or receive. They know full well that an extended warranty or service contract is intended to benefit the provider more than the customer. They've been burned too often by "coverage" that was inadequate or misleading. Most oilheat service contracts are filled with exclusions and lists of non-covered items.

Many other service businesses thrive on the "pay as you go" formula. Think of your own experiences. When your automobile needs repairs (after the manufacturer's warranty expires), you pay a garage for parts and labor. If your roof leaks, you pay a roofer to fix it. When the washing machine stops spinning, you call the Maytag man.

The alternative to doing away with service contracts is to price them appropriately. This does not mean slashing prices to meet the competition. Setting a reality-based contract price involves examining current service expenses such as payroll, parts, supplies, service vehicles and a percentage contribution to overhead costs. The annual FuelTrack study conducted by Gray, Gray & Gray indicates that, on average, these costs add up to approximately \$200 per customer. Pricing your service contract below this line is akin to giving away service, plus a few bonus dollars!

The oilheat dealer's service department as a profit center has long been hampered by underpriced service contracts, resulting in low, nonexistent or negative margins for service. Correcting this imbalance may not require the radical surgery of excising service contracts

altogether. But converting customers to a "pay as you go" system is certainly more appealing than losing money on every service contract you write.

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