

Case Study: Creating Retail Loyalty Through Extended Warranty Programs

Introduction

In today's competitive retail environment, maintaining customer loyalty while preserving profit margins has become increasingly difficult. Many retailers rely on extended warranty programs to drive incremental revenue and strengthen post-sale relationships. However, these programs often fail to deliver lasting customer engagement or repeat business. To address declining profitability and low customer retention, a new approach was required—one that would transform extended warranties from a transactional upsell into a long-term loyalty driver.

The Challenge

Traditional extended warranty programs present several key challenges for retailers:

- **Low Customer Loyalty:** Once purchased, customers have little reason to re-engage with the retailer until a claim is needed—if ever.
- **Shrinking Margins:** Economic pressures and tariffs have significantly reduced product margins, making profitability harder to sustain.
- **Sales Dependency:** Program success relies heavily on sales associates to explain and close warranty sales, which results in inconsistent performance and low closing rates.

To counteract these issues, many retailers introduced “Use It or Don’t Lose It” programs. These programs offer customers a store credit equivalent to their extended warranty margin if no claim is made by the end of the warranty term. While this approach intended to improve value perception, it introduced its own set of complications:

- **All-or-Nothing Redemption:** Customers must go five years without a claim to receive any benefit.
- **Deferred Liability:** Retailers must honor large credit redemptions all at once at the end of the warranty period, negatively impacting margin and profitability.
- **Operational Complexity:** Retailers must verify with warranty providers whether a claim was made before issuing credits.

- **Limited Engagement:** Customers still interact with the retailer only at the time of purchase and potentially five years later, resulting in almost zero ongoing loyalty.

Solution

To create sustainable engagement and strengthen the retailer-customer relationship, we developed a **loyalty program layered on top of the existing warranty program**.

Instead of the traditional “Use it or don’t lose it” model, the redesigned program removes the “lose it” condition entirely. Customers now **receive 20% of their eligible credit each year**, accumulating for up to five years. At the end of the five-year term, they have a 90-day window to redeem the full accumulated balance.

This structure delivers multiple advantages:

- **Ongoing Engagement:** Customers are reminded annually of their earned credit, encouraging repeat visits and purchases.
- **Incremental Loyalty:** By creating regular touchpoints, retailers build sustained relationships rather than one-time transactions.
- **Predictable Liability:** Credits are distributed gradually, reducing large end-of-term financial exposure.
- **Enhanced Sales Confidence:** Sales associates can promote the warranty as both a protection plan with 100% credit regardless of the number of claims made which drastically improves closing rates.

Results

Although the program is still in its initial stages, preliminary data indicates powerful performance and clear momentum. Across the initial retailer deployment, **extended warranty sales have grown consistently month over month**, demonstrating immediate impact on both engagement and sales behavior.

We used an independent retailer with two locations -

- **April:** 46 warranties sold (Program introduced)
- **June:** 70 warranties sold.
- **August:** 90 warranties sold.
- **September:** 111 warranties sold.

This represents a **141% increase in warranty sales** over a five-month period, driven primarily by the new incentive structure and enhanced customer communication strategy.

To project long-term potential, we analyzed data from an established retailer already using our loyalty framework across three stores. Over the **2024 calendar year**, this retailer:

- Enrolled **2006 customers** in their loyalty program.
- Recorded **955 redemptions**.
- Generated a total of **\$1 700 000+** from sales that used redeemable credit.

These figures demonstrate that when customers are given recurring, tangible rewards, engagement and repeat spending will rise substantially. Applying this proven rewards program methodology suggests a strong outlook for sustained customer retention and revenue growth.

Conclusion

By integrating a loyalty component into extended warranty programs, retailers can transform a traditionally low engagement offering into a sustainable customer retention strategy. The annual 20% credit model not only rewards customers but also encourages repeat visits, stabilizes revenue flow, and reduces operational friction. This innovation aligns customer satisfaction with retailer profitability—turning extended warranties into a long-term engine for loyalty and growth.

The numbers tell the story — loyalty drives growth.

See how our program can potentially double engagement and improve profitability without any change to your existing warranty program or provider.

Contact us today at RewardsLP.com to start your program.



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