

## **EQUIPMENT MAINTENANCE AGREEMENTS**

Do you really need a maintenance agreement on that piece of equipment? How many times did it need repairs last year? Did it need repairs at all? In most cases, the answer is that it did not need repairs very often. Experience has shown that equipment maintenance agreements are very profitable for the vendor and not very economical for the equipment owner. In effect, the vendor is betting that the equipment will not need repairs, or at least not very many repairs, and the equipment owner is betting that it will need lots of repairs. The bottom line is that the vendor wins most of the time. The vendors have the advantage because they know how much it will require on average in repairs. Various publications indicate that most vendors make as much as 50% profit on maintenance agreements.

Purchasing recommends that departments opt not to purchase annual maintenance agreements for the repair of most equipment. Only in the case of a very old or mission critical, unique piece of equipment is the purchase of a maintenance agreement justified. Based on studies that have been done, departments should save at least an average of 20% per year on the cost of maintenance agreements by resorting to "time and material cost" repairs. Granted, there may be a year when the "time and material costs" will exceed the cost of a maintenance agreement, but in other years the costs will be less.

One way to try the "time and material cost" approach is to submit a requisition to encumber funds for a blanket order for the year in the amount of the cost of a maintenance agreement. If your equipment needs repairs, you simply call the vendor and reference the blanket order. Near the end of the year, if there is a balance on the blanket purchase order, you know that you have saved money over the cost of a maintenance agreement and the blanket order is canceled to unencumber the money.

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