Quarterly Update on U.S. Overall Customer Satisfaction and Commentary on Automobiles & Light Vehicles

Small Customer Satisfaction Gain Not Enough to Bolster Weak Economy

The national ACSI shows marginal improvement of 0.1% to a score of 75.7 on a scale of 0 to 100—not enough to make a dent in consumer spending or spur economic growth. Not only is the increase in the nation’s overall customer satisfaction minute, its impact on consumer demand weakens in a struggling economy. While demand generally shifts to companies that do a good job of satisfying their customers, aggregate demand in times of economic distress is hampered by other factors such as doubt about the future, job uncertainty, and lack of discretionary income.

ACSI reports new results for individual industries and companies on a monthly basis and updates the overall national customer satisfaction score on a quarterly basis. Today’s release includes both the second quarter national update and new data for automobiles.
The economy has a long way to go to recover from the grand recession. Since the end of 2007, personal consumption has risen only by less than half a percentage point and GDP has not increased at all. The same is true with (inflation-adjusted) personal income. Except for certain sectors (for example, luxury goods), consumer demand continues to be weak. The fact that overall customer satisfaction is lower than it was in 2008 does not help. The ACSI began to decline in 2007, shot up in 2008 as companies competed aggressively for fewer consumer dollars, held steady in 2009, and began to drop again in 2010, followed by even slower economic growth. Consumer spending growth turned negative in June.

Under more typical economic circumstances, a customer satisfaction level of 75.7 with a marginal quarterly increase should produce an increase in consumer spending of about 2.8%—still feeble, but at least positive. As the following graph shows, customer satisfaction has not led consumer spending in a consistent manner since the recession. This was the case in the first quarter of 2011 as well. Specifically, spending growth was a meager 0.9%, whereas consumers’ aggregate satisfaction “warranted” an increase of at least 3.1%. There is not much economic data, including ACSI, that point to an improvement in consumer demand for the next quarter.

The Automobile Industry: A Renewed Threat to Detroit’s Recovery
Just when Detroit seems to think that it is safe to go back into the water, having escaped drowning in liabilities and low customer satisfaction, a familiar threat is back. After having bested or tied both European and Asian automakers in customer satisfaction by grabbing three of the top five ACSI slots in 2010, Detroit is falling behind again. This time, the threat is the same with regard to satisfaction, but differs with respect to buyer incentives. It used to be the case that domestic nameplates needed incentive programs
because of their weaker customer satisfaction, while Japanese companies used price discounts much more sparingly. Now, it is the Japanese who are relying on incentives, but they also are improving in customer satisfaction. Of the top three nameplates in ACSI (all with scores of 87), two are Japanese brands.

Overall, the auto industry’s ACSI score improves by 1.2% to 83. Among Japanese and Korean automakers, six of the seven nameplates show improvement, with Mazda being the lone exception. Similarly, two of the three largest European brands either improve or are unchanged in 2011. On the other hand, four of the six nameplates that decline this year are domestic (Lincoln, Buick, GMC, and Chrysler). Both Toyota and its Lexus nameplate share the top spot along with GM’s Cadillac. All three leaders show satisfactions gains, although Cadillac’s rise is slight. Of the bottom four, three are American brands (Dodge, Jeep, and the Chrysler brand itself) and one is Japanese (Mazda).

Toyota and Honda are relying heavily on price discounts and both have strong customer satisfaction. This will make competition very difficult for all other automakers, especially since industry sales remain weak. It also indicates that Japanese automakers are determined to recapture recent losses in market share. For Detroit, the complacency suggested by falling customer satisfaction is ominous. Much has changed in the U.S. automobile industry, but not everything. In particular, the industry’s approach to customer satisfaction measurement has not evolved and fails to take advantage of modern measurement technology to identify specific aspects of quality, service, and marketing for which consumers are willing to pay. In addition, measurement systems are not calibrated to financial objectives.

ACSI of Domestic and International Automobiles 1994 to 2011
Recent sales growth has been weak, or even negative, for most of the Japanese nameplates, but this has nothing to do with customer satisfaction problems. Rather, it is a matter of diminished supply, as Toyota, Honda, and others were severely impacted by the effects of the earthquake and tsunami that devastated Japan in March. The inverse applies to BMW, which plunges to its lowest ACSI level in 14 years (-4% to a score of 83) amidst a quarter marked by very strong earnings. The company’s strong financials had little to do with customer satisfaction. Instead, they were largely driven by first-purchase buyers in China. Production challenges for Japanese automakers provided an opportunity for Detroit to increase both market share and earnings, but declining customer satisfaction will make it difficult to sustain these gains as Japanese companies begin to recover.

Looking at domestic carmakers, Ford holds the top spot with an ACSI score of 85, followed closely by General Motors at 84, both slipping 1% from a year ago. Chrysler is well below the ACSI industry average and matches its lowest-ever ACSI of 78. Still, the company’s Dodge and Jeep nameplates make small improvements and have shown strong year-on-year sales growth. By contrast, the Chrysler nameplate, now the smallest of the three brands, sinks for a second straight year, down 5% to an industry low of 76.

Luxury nameplates dominate the top of the industry. Quality almost always trumps price in impact on customer satisfaction. Of the seven brands that score 85 or better, five of them—Cadillac, Lexus, Mercedes-Benz, Lincoln, and Buick—are upscale, while the other two are Japan’s biggest U.S. sellers—Toyota and Honda.
Mercedes-Benz gives a strong performance with an ACSI score of 86 for a third straight year, while 2010’s number-one and number-two ACSI brands experience sharp downturns. Former industry leader Lincoln drops 3% to tie Mercedes-Benz at 86, while Buick falls 3% to 85. Sales of Buick remain robust, but Lincoln’s North American unit sales failed to eclipse the 100,000 mark in 2010 and are down for the first half of 2011. Price and reliability seem to be less of a problem than the attractiveness of the brand itself. Ford has devoted significant resources to its core car and truck division, perhaps leaving Lincoln in need of new models and greater differentiation from the Ford brand.

Honda inches up 1% to tie Buick at 85, rebounding slightly from a large drop in 2010. Ford and Nissan both gain 2% to 84 and tie Volkswagen, which jumps 4% to partially recover from what was the biggest decline among automakers in 2010. In the middle of the pack alongside BMW are Hyundai (+1%) and GMC (-1%) at 83, followed by Chevrolet (+3%) at 82 and Kia (+1%) at 81.

The three Chrysler brands are well below the ACSI industry average despite a small 1% gain for Dodge and a modest 3% increase for Jeep (both 79). The Chrysler brand, however, falls sharply for a second straight year—dropping another 5% to 76. The Chrysler nameplate now includes just three models: the Town & Country luxury minivan, the 300 series, and the new 200 series. The brand’s year-to-date sales are down 11% and it is one of only two non-Japanese nameplates with negative sales growth for the year (Ford’s Lincoln is the other). Mazda rounds out the below-average nameplates, down 1% to 79—the only Japanese brand that fails to beat the industry average.

**About ACSI**

The American Customer Satisfaction Index (ACSI) is the only uniform, cross-industry measure of customer satisfaction proven to predict financial results. Founded at the University of Michigan’s Ross School of Business, the ACSI is a leading economic indicator of consumer spending in the United States.

The ACSI measures more than 225 companies and organizations across 47 industries, representing close to half of the U.S. economy. Nearly 20 years of data from the ACSI show that customer satisfaction is an indicator of financial results on both macro and microeconomic levels, including shareholder value and cash flow volatility. The U.S. Federal Government also uses the ACSI as the gold standard of satisfaction measurement for its agencies. The ACSI can be found on the Web at [www.theacsi.org](http://www.theacsi.org).