Commentary on Airlines, Express Delivery (Consumer Shipping), Full-Service Restaurants, Hotels, Limited-Service Restaurants, and U.S. Postal Service

Airlines Rank Lowest in Satisfaction; Hotels and Restaurants Please More Customers

Airlines
Passenger satisfaction with airlines drops by 1.5% to an ACSI score of 65—a very low score that keeps getting worse. In fact, airlines carry the lowest score among 47 ACSI industries (tied with newspapers). Poor service remains a problem for the industry. Higher fuel prices and fees for baggage and other services raise passenger costs and contribute to discontent among travelers. Passengers who pay for checked bags are much less satisfied than those who don’t (an ACSI score of 58 compared to 68). They also are more dissatisfied now than one year ago (-3%). Because about 50% of fliers pay bag fees, the negative impact on their satisfaction is quite significant. Airlines have another concern as well; that is, their most profitable market segment, business passengers, is the least satisfied (ACSI score of 61).

As usual, Southwest leads in passenger satisfaction. Southwest dipped last year, but now rebounds, up 3% to 81 to match its largest gap ever (17 points) to the rest of the industry. Southwest is also the only major airline that remains profitable. Revenue is up for the airline, and although its ticket prices are increasing—and sometimes actually higher than competitors’ fares—there have not been any negative repercussions on customer satisfaction.

There are several reasons for Southwest’s satisfaction dominance. First, even though the airline’s in-flight services are fairly minimal, its overall service is viewed quite favorably. For example, switching flights is easy and usually without cost to passengers. Second, Southwest does not have any agreements with websites that allow people to compare prices. Third, Southwest seems to have a knack for knowing when to charge additional fees and when not to add to its customers’ cost. Charging for value-added services such as early check-in does not cause problems with passengers. Charging for luggage, on the other hand, is perceived quite differently, and Southwest does not impose baggage fees.

Continental comes in second place among major airlines, but its score is far behind Southwest. Since the airline is now a part of United, this is the final year for Continental
in the ACSI. While the merger has so far left United unaffected (+2% to 61), it appears to have had a large impact on Continental, which plunges 10% to a score of 64. Airline mergers typically have a destructive effect on passenger satisfaction. In 2005, US Airways fell 8% to an industry low following its merger with America West. While its score did recover somewhat unevenly over the next few years, US Airways slips again in 2011—down 2% to 61, which ties United and trails American (unchanged at 63). A year after acquiring Northwest, Delta Air Lines plunges by 10% to a truly dismal score of 56. Thus, past experience points to more customer satisfaction challenges ahead for United and raises the question of whether Southwest can escape customer satisfaction problems in light of its acquisition of Air Tran in May.

Hotels
Guest satisfaction with hotels rises 2.7% to a score of 77. Lower rates and more perks, such as faster accumulation of rewards points and quantity discounts, have enhanced customers’ views of value for money. Although guest satisfaction has benefited, there has been no effect on customer loyalty and repeat business. Typically, price-induced satisfaction tends to make people shop around for the best deal rather than promote loyalty. The aggregate of smaller companies—including small hotel and motel chains, individual luxury hotels, and bed and breakfasts—makes the most progress (up 4% to 77). Overall, however, the results are rather mixed for the hospitality sector, with two chains improving, three declining, and three unchanged. The industry is having more success with leisure travelers—their satisfaction improves 1% to 77—while that of business travelers falls 1% to 75.

Upscale hotels usually dominate the top of the category and this pattern prevails in 2011 with Hilton in the lead (steady at 80), followed closely by both Marriott (-1%) and Starwood (+3%) at 79. Hyatt is next in line with 77 (-3%). The other four large chains all earn scores that are below the industry average. InterContinental, led by the Holiday Inn brand, drops 3% to 76 and ties Best Western (unchanged). Choice Hotels, which includes the Comfort and Quality Inn chains, follows with a stable score of 74. Wyndham Worldwide—with budget brands such as Ramada, Super 8, and Days Inn—improves the most with a 4% jump to 73. Still, this increase is not enough to lift Wyndham out of the industry basement. For Wyndham, most of the satisfaction gain seems to be price driven via the company’s points-based rewards program, which is the largest of its kind in the industry.

Fast Food and Restaurants
ACSI results indicate that dining out is more enjoyable overall for consumers this year. Most restaurants have better ACSI scores today than they did one year ago. The only exceptions among full-service restaurants are Olive Garden and Red Lobster, but their ACSI drops are small and both companies remain at the top of the category. Among fast food chains, Papa John’s is the only company that did not improve, but like the aforementioned chains, it maintains a high score and only drops slightly (about 1%).
Overall, full-service restaurants inch up 1.2% to an ACSI score of 82, while fast food climbs an impressive 5.3% to an all-time high of 79.

The nature of the dining experience separates full-service restaurants from fast food venues and contributes to higher levels of satisfaction. Variety, speed, convenience, and price define satisfaction with fast food chains. In a weak economy, price plays a greater role than otherwise. Relatively speaking, this should be beneficial to the fast food business. Despite anemic aggregate household consumption growth, customers of both full-service restaurants and fast food still indicate their intention to spend more on eating out this year. The fact that customer satisfaction has jumped to a considerably higher level for fast food should boost the industry. Yet, the economy remains fragile and continued increases in food prices are a concern. In addition to making sure that customers are happy, restaurants able to exert more pricing pressure on food suppliers will do better than others, particularly as escalating food prices also affect the cost of eating at home.

Pizza dominates burgers in the fast food category. All four large pizza makers are at, or near, the top of the industry for customer satisfaction. But this stronger performance is not just because of the pizzas. For these chains, offering more consumer choice plays a role as well: takeout, delivery, ordering online, pastas, chicken, salads, and more. Pizza Hut climbs into the lead with a 4% improvement to an ACSI score of 81. Little Caesar and Starbucks, both up 3% to 80, are not far behind. Papa John’s is next, down 1% to 79, followed by Domino’s Pizza with an unchanged score of 77 for a third straight year, despite a major overhaul of its recipes. Wendy’s tops burger satisfaction and holds its ground at 77, followed by Taco Bell (+3%) at 76. KFC (unchanged) and Burger King (+1%) are tied with scores of 75.

McDonald’s makes the largest improvement of all companies, jumping 8% to a score of 72. Despite this gain, the world’s largest hamburger maker remains in last place for satisfaction among fast food chains. Since the gap to its competitors has narrowed, this may well be the sweet spot for McDonald’s. It’s not that the Golden Arches operation is so big that its revenue is immune to low customer satisfaction, but rather it is less impacted by low satisfaction compared with the competition. Convenience, kid appeal, location, low prices, and meeting customer expectations are the ingredients of success for McDonald’s. Mix in a healthier dose of customer satisfaction, good quality coffee, new menus, improved ordering efficiency, and a major effort to refurbish stores, and the near future looks better for MCD than it did a year ago.

In order to justify higher prices, full-service restaurants need to beat fast food in customer satisfaction. This they do, but not by much (82 versus 79) and their satisfaction lead is shrinking. Not only should this be a warning signal to the full-service outlets, but they also have a problem with a lack of satisfaction differentiation within their own category.
In this industry, nearly every company carries virtually the same ACSI score (81 or 82), and only Chili’s Grill & Bar (+1% to 79) lags a bit behind.

**Express Delivery and Mail Services**
This year, ACSI expands its treatment of express delivery services to include both consumer senders and receivers. The measure now encompasses packages people pay to have sent to other people and express-delivered merchandise they pay to have shipped from companies. Customer satisfaction for the category inches up for a second straight year, gaining 1.2% to an ACSI score of 84. Double-digit growth in online sales during the first quarter has increased demand for consumer-paid shipping of Internet purchases.

FedEx led the industry for more than a decade, but this year UPS moves into the number-one position, up 4% to 85. Satisfaction with FedEx dips slightly, falling 2% to 83. UPS has outperformed its rival in the stock market as well, with a 19% share increase over the past year.

The United States Postal Service gains 3% for its express delivery services, but its score of 79 keeps the USPS well behind both UPS and FedEx. Customer satisfaction with the Postal Service’s regular mail delivery also improves over last year, up 4% to match its former high point of 74. But this gain comes at a time when the volume of mail is shrinking and the Postal Service faces financial difficulties. Indeed, higher satisfaction with the Postal Service might reflect a dwindling customer base, the most loyal of whom is also the most satisfied. The more dissatisfied customers may already have left.

**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).