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November ACSI Scores »

Quarterly Update on U.S. Overall Customer Satisfaction and Commentary on Apparel, Athletic Shoes, Food Manufacturing, and Pet Food

Can’t Get No (Customer) Satisfaction

The ACSI continues on the path it has been for quite some time now: in the aggregate, it is going nowhere. In this sense, it not only mirrors the economy, it contributes to its frailty. There are several reasons why customer satisfaction takes on extra importance in a fragile economy. One reason has to do with protection of the customer base. When there is little or no industry growth, the only way for many companies to expand is to take market share from competition. In a weak labor market with tight household budgets, this leads to more price competition, deflationary pressure, and a further weakening of aggregate demand. The best defense a company can have against competitive efforts to take market share is to have satisfied customers.

At the macro level, customer satisfaction also becomes more salient in times of economic trouble. Ultimately, business investment and employment depend on consumer demand. When demand exceeds supply, there usually isn’t a demand problem, and it is true that the United States consumes more than it produces. But it consumes too much of what is produced elsewhere, as evidenced by trade statistics. With respect to domestic supply and demand, the United States does suffer from a weakness in demand. A redirection of consumption toward domestic production would be helpful, but policies directed at restricting trade or at affecting currency rates have obvious limitations.

Efforts to increase customer satisfaction do not suffer from the same limitations or difficulties. Higher customer satisfaction has a positive effect on demand—especially via repeat purchase. It may make sense for government to encourage companies to increase customer service and customer satisfaction. This can be done in many ways. For example, it might help if companies were allowed to treat the cost of improving the customer experience as an investment on the balance sheet that is capitalized over time. When rises in customer satisfaction for domestic companies prompt shifts in demand in the same direction, then businesses have reason to invest and to hire more employees.
The overall ACSI is unchanged from the second quarter at 75.7 on a scale of 0 to 100. There is no sign of traction for an upward movement, but it is also true that aggregate customer satisfaction was lower at the end of 2010, when the national ACSI dropped to 75.3 during the fourth quarter. With regard to individual firms, decliners outnumber gainers by 40% to 32%. The remaining firms stay at the same ACSI score they had one year ago.

![ACSI 1994 to Q3 2011](image)

Consumer spending growth was 2.4% for the third quarter of 2011. Most analysts feared that it would be lower. The ACSI data predicted a slightly higher rate of 2.8%. GDP growth was a tepid 2.5%, but still better than many expected. As the next graph shows, the relationship between buyer satisfaction and consumer spending is weakening. This, too, is a reflection of an economy in distress and occurs when discretionary spending shrinks relative to total spending. At present, only high-income groups continue to exhibit a normal relationship between spending and satisfaction. Nevertheless, the ACSI prediction of third-quarter spending was not far from the mark. For the final quarter of the year, ACSI data point to a spending growth of about the same rate, with the caveat that it could again be somewhat lower.

![Changes in Consumer Spending (PCE) and ACSI (lagged one quarter)](image)
**Food**
Despite rising prices, the ACSI score (81) for food products as a category has not changed since last year. For individual companies, the results are mixed with as many ACSI decliners as gainers. H.J. Heinz is in the latter category, up 1% to a score of 89, which not only makes it the industry leader for the 12th straight year, but also the highest-scoring company among more than 225 companies in 47 industries covered by the ACSI. Heinz has added more products at lower price points in order to meet the requirements of increasingly value-conscious consumers, especially with smaller sizes for convenience stores and dollar stores. Candymaker Mars is next, up 2% to 87, followed by several companies that lag well behind. Quaker (PepsiCo) and Hershey each slip 2% to tie Nestlé (unchanged) at 84, while General Mills and ConAgra (both unchanged) tie Dole (+1%) and Kraft (+3%) at 83.

Sara Lee falls 4% to an ACSI score of 82. Campbell Soup also drops 4% and ends up tying Tyson at the bottom of the industry with a score of 79. Price appears to be a major issue for Sara Lee. The maker of products such as Ball Park hot dogs and Jimmy Dean sausages has increased prices over the year by 10%, on average. Similarly, Campbell’s has raised prices in response to cost increases, while other soup makers have kept their prices steady. As a result, Campbell is facing weakened customer satisfaction and a drop in sales.

**Pet Food**
Customer satisfaction with pet food, as determined by the buyer rather than the consumer, slips for a second straight year, down 1.2% to an ACSI score of 82. The decline is driven by sharp ACSI drops for Mars Petcare and the aggregate of smaller brands. Colgate-Palmolive’s Hill’s Pet Nutrition improves 2% to take the industry lead at 84, with the remaining companies clustered around the industry average. Del Monte (-1%), Nestlé Purina PetCare (unchanged), and the aggregate of smaller brands (-4%) all tie the industry average at 82. Procter & Gamble’s Iams brand (+1%) follows closely at 81. Mars Petcare suffers the greatest plunge, falling 6% from the top of the category last year to the bottom this year at 80. Here, too, higher prices seem to be the culprit.

**Athletic Shoes**
As a group, makers of athletic footwear show the only gain in customer satisfaction among the four industries reported on this month. The industry’s ACSI score inches up 1.3% to 81, but this is a category that shows very little differentiation among the individual companies—big or small. The aggregate of smaller brands such as Skechers and New Balance are on top, improving 1% to 81, with the two largest companies, Adidas (includes the Reebok brand) and Nike, close behind at 80. Nike’s score is unchanged this year, but Adidas shows a small 2% drop. Customers prefer what they perceive as Nike’s higher quality, but this is offset by higher average prices. Adidas, on the other hand, delivers an attractive value proposition.
Apparel
After two years of improvement, customer satisfaction with apparel falls almost 4% to an ACSI score of 80. A sharp 5% downturn for the aggregate of smaller companies, which makes up a majority of industry sales, is responsible for most of the decline. Yet, only one of the five largest manufacturers shows an improvement. Cost increases have shown up in the form of higher prices, and this appears to be the major cause of the industry’s weakening customer satisfaction. In particular, the rise and fall of the cost of cotton has been problematic. The rise was passed largely on to the consumer, but the more recent fall of over 50% was not. In order for customer satisfaction to return to previous levels, some price adjustment probably would be necessary.

V.F. Corporation maintains the industry lead despite a 2% drop to an ACSI score of 83. Hanesbrands is in the runner-up spot after a 1% gain to 82 and is the only large manufacturer to post any improvement. Levi Strauss follows with an unchanged score of 81. At the bottom of the industry, Jones Group drops 3% to 79 to tie Liz Claiborne (unchanged) and the aggregate of smaller brands. Satisfaction with Jones has fallen each of the past three years after reaching an all-time high of 84 in 2008. Over that time, Jones’s stock has plunged nearly 50%.

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.