February ACSI Scores »

Quarterly Update on U.S. Overall Customer Satisfaction and Commentary on Department & Discount Stores, Gasoline Stations, Health & Personal Care Stores, Internet Brokerage, Internet Retail, Internet Travel, Specialty Retail Stores, and Supermarkets

Customer Satisfaction Slowly Improves as U.S. Economy Continues a Sluggish Recovery

As the economy improves, albeit at a very slow pace, aggregate customer satisfaction with goods and services has improved as well. The ACSI gain for the final quarter of 2011 is very small, but it represents the fourth consecutive quarter without a decline. The national ACSI advances by 0.1% to an overall score of 75.8. In total, the ACSI national average gained 0.7% in 2011.

The good news is that customer satisfaction continues to climb, which has a positive effect on consumer demand and economic growth. The bad news is that the customer satisfaction improvement is tepid. This is particularly noteworthy because a good part of the higher customer satisfaction in Q4 comes from lower gas prices. Gas prices have since reversed course and are now rising, which means that customers obviously are going to be less pleased.

Change in the National ACSI
(0-100 Scale)
Nevertheless, supermarkets and specialty retailers improve 1.3% to ACSI scores of 76 and 79, respectively; department and discount stores stay at 76; and online retail is up 1.3% to 81. Q4 retail sales were also up 5% from the previous year and total retail sales rose by 8% in 2011. Among individual companies, ACSI gainers outnumber decliners by nearly a two-to-one margin: 55% improve, 29% decline, and 16% are unchanged. Health and personal care stores experience the only weakening in customer satisfaction among retailers, as the industry’s score dips 1.3% to 76. Online brokerage also shows a downturn of 2.6% to 76, most likely related to weaker growth in the stock market itself.

![Changes in Consumer Spending (PCE) and ACSI (lagged one quarter)](image)

Gross domestic product grew by 2.8% in the fourth quarter of 2011 and consumer spending was up by 2%. For the first quarter of 2012, the ACSI growth in 2011 points to a consumer spending increase of about of 2.8%.

**Supermarkets**
Customer satisfaction with supermarkets improves by 1.3% to an ACSI score of 76, despite a continued rise in food prices. In 2011, the cost of food prepared at home rose 6.0%, following a 1.7% increase in 2010. Even though this is a price-sensitive market, the negative effect on customer satisfaction from higher prices was dampened by changes in stores (remodeling and freshening up) and by expansion of merchandise selections—all designed to improve the shopping experience for consumers, including making it easier to compare prices.

As always, Publix Super Markets reigns supreme in customer satisfaction among grocers—as it has each year since 1994. Publix holds steady with an excellent ACSI score of
Meanwhile, Wal-Mart’s supermarket business is at the bottom of the category, down 3% to 69—a score that is well below the next-closest chain, Supervalu at 74 (unchanged). In an industry where most competitors try to leverage quality, in one form or another, as a means to compensate for price increases, Wal-Mart’s concentration on price alone does not seem to help satisfy customers. Many consumers may be patronizing Wal-Mart because their economic situation dictates it, not because they have a strong preference for it.

Whole Foods Market places second behind Publix, inching up yet again with a 1% gain to 80. Customer satisfaction for Whole Foods has trended upward in every year since 2007—it’s first year of measurement in the Index. Whole Foods is one of many examples of the payoff from satisfied customers. Its large gain in ACSI (10%) over the past four years is nearly twice that of any other chain and its stock price is up more than 600% over the past three years.

**Specialty Retail Stores**
Retailers that specialize in particular merchandise, such as home improvement, electronics, office supplies, or books, also do a better job of satisfying customers. The category is up 1.3% to an ACSI score of 79 and 2011 marks the fourth straight year of customer satisfaction improvement. Membership warehouse clubs lead the way, with Costco on top, up 1% to 83, followed by Wal-Mart’s Sam’s Club brand, which gains 4% to 81. Barnes & Noble drops out of the lead, falling 4% to 79. Now alone among the big bookstore chains after Borders folded last year, Barnes & Noble is trying to stave off bankruptcy as the book industry continues to evolve in the digital age. The retailer faces tough competition from Amazon.com (and its much higher level of customer satisfaction—an ACSI score of 86). Amazon’s online model for selling books and music is more cost-efficient and its Kindle e-reader is a formidable competitor to Barnes & Noble’s Nook e-reader.

There is not much separation in customer satisfaction in the office supply business. Staples and Office Depot both slip 2% to 79, while OfficeMax rebounds from a big drop last year, gaining 5% to 78. The gain appears to come from customer service improvements. Because OfficeMax is much smaller than Staples or Office Depot, it is difficult for the company to compete on price and the gain in customer satisfaction is probably welcome news. But if you are smaller than your competitors, it is usually not enough to be on par with them in customer satisfaction—you have to be better in order to be able to compete effectively.

Among the home improvement retailers, Home Depot advances for a fourth straight year, up 4% to 78—an all-time high for the company. Home Depot’s ACSI surge is almost enough to catch rival Lowe’s (+3% to 79) for the first time since the two were equal in customer satisfaction in 2001. While Home Depot’s customer service is still weaker than most retailers, it continues to improve.
**Department & Discount Stores**
After three years of small gains, customer satisfaction with department and discount stores levels off at an ACSI score of 76. Pricing pressure remains a challenge as this is the only retail category where price seems to trump quality. Nordstrom, however, is an exception and remains entrenched at the top, improving 2% to an ACSI score of 84. J.C. Penney is up 2% to 82, passing Kohl’s (unchanged at 81) for the first time since the 2002 debut of Kohl’s in the Index. Target and Dillard’s follow close behind, both improving 3% to 80.

Several other chains cluster at or slightly above the industry average. Dollar General falls 3% to an ACSI score of 78, followed closely by Macy’s (+1% to 77) and Sears (+1% to 76). The world’s largest retailer, Wal-Mart, trails the entire industry after dropping 4% to 70—a score that is well below the department and discount store average. Wal-Mart’s downturn in customer satisfaction, and the large gap that separates it from the competition, is similar to its standing in the supermarket category. Wal-Mart’s share price is up 12% from a year ago, beating the market, but financial performance appears to be buoyed by overseas growth—U.S. sales remain mired in a two-year slump. In view of Wal-Mart’s focus on value for money, this may seem surprising since shoppers continue to be very price-conscious. The problem may be that the denominator in the money/value expression is seen as too weak by consumers and that dollar stores and other big box retailers are viewed as viable alternatives, offering different combinations of service and product quality along with low price.

**Health & Personal Care Stores**
Customer satisfaction with health and personal care (drug) stores declines for a second straight year, falling 1.3% to an ACSI score of 76. This is the lone category in retail to deteriorate this quarter. Smaller is better among drug stores. The aggregate of all small stores gains 1% to an industry high of 82—a score that is much higher than the large chains. As with banks, personalized service matters for drug stores, and smaller players are often better at it. Among the big three, Walgreen falls 3% into a tie with Rite Aid, unchanged at 75. CVS Caremark is at the bottom following a 1% drop to a seven-year low of 73. CVS has faced cost-cutting challenges as sales continued to fall throughout 2011. Under these circumstances, it is difficult to maintain high levels of customer satisfaction.

**Internet Retail**
After a drop a year ago, customer satisfaction growth with online retail is back up with a 1.3% gain to an ACSI score of 81. This is not quite the satisfaction level reached two years ago, but is still very high. In fact, Internet retail is the highest ACSI-scoring retail category, well above most traditional stores. Both Nordstrom and Costco, however, outperform the online retail average and do better in ACSI than all but the very best Internet retailers. In the latter group, Amazon leads at 86, despite a slight 1% falloff,
followed closely by Newegg, which gains 1% to 85. Overstock is next at an unchanged score of 83. Matching the industry average, eBay is steady at 81. The aggregate of all other online retailers, including the websites of the brick-and-mortar chains such as Target and Wal-Mart, gains 3% to 80.

Customer satisfaction for movie rental provider Netflix took a predictably large hit when the company raised prices during the summer in what amounted to a 60% increase for its combined streaming video and DVD-by-mail rental services. The ACSI score for Netflix plunges 14% to 74—the bottom of the category. This is one of the biggest single-year drops ever seen in ACSI history. During the third quarter of 2011, the company lost some 800,000 subscribers and its stock plummeted 75%. Since then, Netflix has bounced back somewhat, adding around 600,000 subscribers in the fourth quarter, and its stock price has doubled from its low. Over time, Netflix may be able to turn around its slumping customer satisfaction as more customers shed the DVD-by-mail service in favor of the streaming service, but streaming presents its own challenges with the threat of new competitive entry and difficulties in securing high quality content.

**Internet Brokerage**

Customer satisfaction with online brokerage services falls 2.6% to an ACSI score of 76. Despite efforts by brokerages to improve their websites for making and recording transactions, market performance plays a large role in determining investor satisfaction. In 2008 when the market plunged 38%, the ACSI score for online brokerage fell 6%. After two years of double-digit market gains and recovering ACSI scores, weaker growth in 2011 has left investors less satisfied again.

Large online brokers do a better job of satisfying customers than their smaller counterparts, but there is very little separation among the four largest brokers. Charles Schwab holds at least a share of the lead for a third straight year, down 1% to 79 and tied with Fidelity (+1%) and E*Trade (+4%). TD Ameritrade is close behind at 78 after a 1% gain. E*Trade has made investments in its call center operations and tweaked its website in order to provide better customer service, which may be showing in its improved score. The aggregate for all other online brokerage services such as Vanguard and Scottrade drops 4% to 75, well below the biggest brokers.

**Internet Travel**

Travel websites for booking airfares, hotels, and car rentals are unchanged at an ACSI score of 78. Value for money remains strong throughout the category, as discounting continues to attract more consumers. Travelocity tops the category, up 3% to 79, and equals the aggregate of all smaller travel websites, which is unchanged. Travelocity swaps places with last year’s leader Expedia, which falls 3% to 77. Both Orbitz (+1%) and Priceline (+4%) are close behind at 76. Priceline’s gain erases its decline from a year ago. Over the past few years, Priceline moved away from its “name your own price” approach toward a more conventional travel services model. Results have been mixed so
far, but this year’s uptick may signal that Priceline might be on the right track. Investors seem to have taken notice—Priceline stock is up 24% from a year ago.

**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).