Consumer Willingness to Spend Beyond Means May Exceed Ability, According to American Customer Satisfaction Index

Increased Satisfaction with TV, Telecom, and Hotels Offset Utilities’ Bad Weather Woes

ANN ARBOR, Mich. (May 16, 2006) – After nudging upwards last quarter, the American Customer Satisfaction Index (ACSI) rose to 74.1 in the first quarter 2006, its largest jump since 2003. Both consumer spending and Gross Domestic Product had significant increases in the first quarter, and ACSI data predict that trend may continue to defy expectations despite slow wage and salary growth and a negative savings rate. Customer satisfaction data show that rising satisfaction as measured by the ACSI is correlated with increased inclination to spend, even if consumers’ ability to spend is uncertain.

“Even with climbing energy prices, higher interest rates, a soft dollar, a low approval ratings for the President, satisfied American consumers will likely continue to spend only if they can find the money to do so, and that is certainly unclear,” said Professor Claes Fornell, head of the ACSI at the University of Michigan. “But as consumers feel a bigger economic pinch, companies will be competing for fewer and fewer dollars, making customer satisfaction increasingly important.”

In the first quarter of every year, the ACSI measures customer satisfaction with the quality of products and services in energy utilities, airlines, express delivery, U.S. Postal Service, hospitals, hotels, fast food
restaurants, cable & satellite TV and telecommunications (land line and wireless telephony) services.

Telecommunications: Increases for Wireless, Cable, & Satellite Providers
The wireless telephone service industry improved 5% this year to 66 - still significantly below the national average. T-Mobile gains 8% to a score of 69 to join Verizon Wireless at the top of the industry. Most of the other companies in wireless have higher ACSI scores than they did a year ago, except for Sprint Nextel which remains tied at the bottom of the industry with Cingular at a score of 63.

Cable and satellite television increased 3 percent to 63, improving for the first time since debuting on the Index in 2001. The cable industry has been a perennially poor performer, with rate hikes more consistent than service. But bundling of services is improving the perceived customer benefit in the form of price savings and a single vendor, though the value of each service individually may be difficult for consumers to ascertain. DirectTV leads the pack with a 6 percent improvement to 71, the highest score in the sector. Despite the improvements, Cable and Satellite TV still lags among the poorest scoring industries measured by the Index.

As evidence of the converging communications landscape, Comcast and Cox Communications join the fixed line telephone service providers on the Index this quarter. Cox makes its first appearance as the highest scoring phone service at 76. Comcast debuts at 69, just below the industry average of 70 but the same as Verizon Communications. Two telecoms set to be wed, AT&T and BellSouth both scored 71.

“Cable companies scored better in the telecom category than in subscription television service category. Though the telecom landscape is dominated by big companies, the field seems sufficiently competitive to satisfy customers with low prices,” said Prof. Fornell. “I expect customer satisfaction to improve in the cable and satellite industry should competition from the major telcos proliferate in the market place.”

Software Makes Its ACSI Debut
As the software industry continues to become a more significant contributor to the economy, Computer Software makes its debut on the ACSI with a score of 74. The industry includes a broad range of software for personal computers, from operating systems to PC games to graphics and home office. The largest player in the space is Microsoft, which scored 73, slightly below the industry average. The aggregate of all other software producers scored 75.

Travel: Hotels Gain but Airlines Drop
The hotel industry improved 3 percent to 75, equaling its highest score since 1994. Hilton leads the way, improving 3 percent to 78, but much of the industry's improvement can be attributed to gains by lower-cost hotel chains. Ramada (up 6.1 percent to 70) and Holiday Inn (up 4.3 percent to 72) made the biggest gains, along with the aggregate of smaller discount chains like Days Inn and Best Western (aggregate up 4.1 percent to 76).

The airline industry dropped 1.5 percent to 65, its lowest score since the industry was rocked by 9/11. As airlines continue to struggle with labor contracts, bankruptcies and higher fuel prices, consumers feel they are getting less for their money. Industry leader Southwest Airlines still rules the industry at 74. US Airways made the industry's biggest jump, improving nearly 9 percent to 62. Northwest Airlines, on the other hand, dropped 4.7 percent to 61, taking last place in the industry as it struggles with strikes and a Chapter 11 filing.
Energy Utilities: Rising Prices and Bad Weather Lower Scores
Though the headlines have been dominated by price hikes at the gas pump, rising energy prices and blackouts in the wake of Katrina and Wilma contributed to lower customer satisfaction in the energy utility sector. Overall, the sector is down 1 percent to 72.4. The utilities that serve Florida, Louisiana and Texas suffered the biggest declines. Entergy (down 7 percent to 70), FPL Group (down 8 percent to 68) and TXU (down 10 percent to 65) were hit hard in the wake of record power outages following two devastating hurricanes last year. But some utilities like Allegheny Energy (up 8.1 percent to 80), which sold off problem businesses less than a year ago, made gains. Other high scorers include PPL Corporation (up 1.3 percent to 81) and Duke Energy (up 2.6 percent to 80).

Fast Food: Pizza (Not Burgers) is King
When it comes to fast food, consumers vote for Pizza over Burgers. Papa John's continues its streak as the top scorer with a 1.3 percent jump to 79. Little Caesar scored 77 and Pizza Hut at 76. New to the Index is Starbucks, which debuts at 77. Consumers give Starbucks good marks for quality but poor marks for value. McDonald's scored 63, well below the industry average of 77.

About ACSI
The American Customer Satisfaction Index is a national economic indicator of customer evaluations of the quality of products and services available to household consumers in the United States. It is updated each quarter with new measures for different sectors of the economy replacing data from the prior year. The overall ACSI score for a given quarter factors in scores from about 200 companies in 40 industries and from government agencies over the previous four quarters.

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